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Soviet Withdraws From Council Sabotaging UNO

By A. WILFRED MAY

Delegate Gromyko Refuses to Abide by Security Council's Decision to Hear Iran's Complaint. Thereupon, in Explaining His Objections to Delay, Iranian Representative Charges That Russian Troops' Presence Is Inconsistent With Sovereignty Rights, and Is Interfering With His Government and People; and Denies the Existence of the Alleged Agreement for Their Withdrawal. Complete Contradiction Between Moscow's Appeasing Words and Her Actions Are Quickly Revealed. Gromyko Performed as a Brilliant Advocate of a Bad Case. The Veto-Rule Controversy Is About to Be Intensified.

HUNTER COLLEGE, New York, March 27—With Delegate A. A. Gromyko's dramatic stalking out of the Security Council Hall here late this afternoon went a goodly share of humanity's hopes for peace. The Soviet Government's non-cooperative attitude toward the United Nations' spirit, after smoldering through the appeasements of San Francisco and London, finally exploded here.

A. Wilfred May

The immediate cause of today's rupture was the insistence of the Council members, excepting only Russia and her Polish satellite, that consideration of Iran's complaint be not postponed. But more important than this immediate issue was the fundamental principle, so forcefully championed by Secretary Byrnes, that if the prescribed rights of the small nations—not members of this higher Council—be disregarded, then the world's confidence in UNO would be permanently destroyed.

Today's arbitrary and unilateral action, obviously dictated by Moscow, made a mockery of her last week's solemn assurances by radio and press conference. It makes crystal clear the Soviet's philosophy that it will play the game only when the rules are changed to fit its own demands.

Soviet Puts Up Bitter Fight

Against the inexorable logic of Secretary Byrnes, Mahmoud Hassan Pasha of Egypt, Sir Alexander Cadogan of the United Kingdom, and Mr. Van Kleffens of the Netherlands; Soviet delegate Gromyko went down fighting to the bitter end. In filibuster-fashion

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The 100% Money and Other "Reserve" Proposals

By WALTER E. SPAHR

Professor of Economics, New York University
Executive Vice-President and Treasurer, Economists' National Committee on Monetary Policy

Economist Cites the Numerous Historical Monetary Fallacies Advanced Since 1932, Particularly the Many Suggested Devices Based on Fiat Paper Money. He Traces in Full Detail the Schemes for "100% Money" From Those of Irving Fisher to the Current Proposals by Professor Leland, Professor Seltzer, and the Committee on Economic Development. Dr. Spahr Charges That All These Plans Involve Misuse of the Term "Reserve." He Declares That the Seltzer Proposal Would Make the Treasury the Dictator, and Effect Centralized, Federal, Executive, Totalitarian Management of Our Money, Banks, Credit, and Prices. Disapproves of the Leland Plan as Completely Overlooking the Proper Relationship of a Central Bank to Its Member Banks, and the Relationship of the Government to the Money Markets. The CED's Recommendations, It Is Charged, Represent the Most Extreme Scheme for Dictatorial and Totalitarian Control Over Money, Prices, and Fiscal Affairs.

The years since 1932 seem to be characterized in this country by a peculiar disease in the field of money: It is the attempt to uncover practically every fallacy known in monetary and political history and science and to offer it as a solution to some monetary, banking, or other economic problem. No monetary plan, regardless of how much evidence history might yield as to its absurdity, seems to be too ridiculous or dangerous to get advocates—often surprisingly respectable ones.

Walter E. Spahr

These old fallacies have in some instances been dressed up in a slightly new garb, sometimes in-

(Continued on page 1658)

Financial Facts and Fancies

By THOMAS I. PARKINSON*

President, The Equitable Life Assurance Society

Mr. Parkinson Calls Attention to the Increasing Money Supply Which Has Resulted From Monetization of Government Deficits, by Having the Banks Create Deposits Through Purchases of Bonds. Sees No Immediate Reversal of This Trend and Warns That Banks as Well as Others Will Suffer From Excessive Increases in Deposits and Monetary Inflation. Urges That We Get Bonds Out of the Banking System and That the Federal Reserve and Congress Alter Policy of Low Interest Rates and That a Monetary Commission Be Created to Formulate a New Fiscal Policy.

T. I. Parkinson

Why do we turn with adoring eyes and appreciation to other so-called democracies without constantly emphasizing the glory of this American constitutional government? I would like to hear a little more of praise and boasting about America along the line that the great Russian leader boasted of his own country and its government a short time ago. Yes, I am for America and for America's form of government.

But that has nothing to do with your immediate concerns or my subject. The fact is that in 1929 the banks made loans to corporations and individuals on the basis of a market which they had made by their previous loans. Today

*An extemporaneous address by Mr. Parkinson at a meeting of the New York Society of Security Analysts, March 25, 1946.

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Is a Stock Market Collapse Coming?

By LLOYD W. MAXWELL*

Mr. Maxwell Lists New Market Factors Which Have Led to Rise in Security Prices as (1) the Shrinking Supply of Stocks and Bonds; (2) the Plethora of Money; and (3) Eagerness of Banks to Invest Deposits. Holds There Has Been No Unorderly Stock Speculation and That Speculation and Price Advances Are More Rampant in Real Estate, Farm Lands and Commodities. Contends There Is No Inherent Cause for a Stock Market Crash, and if One Comes, It Will Be Due to Outside Conditions, Such as Political and Other Action Destructive of Private Enterprise. Points Out Level of Stock Price Advances Has Been Less Than After Previous War or in Other Recent Boom Markets.

Wall Street and the Stock Market are ever present subjects of discussion. Judging by observation in recent years, a writer on either topic almost has to be a critic if he wishes to please the public and find a publisher. Nor has there been any shortage of critical writers. All sorts of magazines and Sunday Supplements have been harpooning Wall Street, and many of the so-called analyses are sadly lacking in thoroughness and accuracy. In brief, the eyes that profess to see Wall Street too often seem to be astigmatic. They distort many things in the picture and omit numerous things that should be included.

Lloyd W. Maxwell

About nine months ago a wave of Wall Street jitters was injected into the public press—fear that Wall Street was in a boom, and that a collapse was imminent. One article, in the Reader's Digest

*Mr. Maxwell is Economist and Statistician for Louis H. Whitehead Co., New York City.

(Continued on page 1652)

Rude Awakening!

By MELCHIOR PALYI

Asserting That the Calling of Russia's Bluff at the London Conference of the UNO Resulted in That Country's First Diplomatic Defeat Since 1942, Dr. Palyi Points Out That, at Same Time, the Allies Themselves Have Made a Fiasco of Their Policies. Says U. S. and Britain Have Forced Double Dealing on China and That Russia's "Iron Curtain" in Europe Has Disrupted Europe's Economic System. Praises Strong Attitude Toward Russia and Accuses Latter of Encouraging World Revolution and Communistic Ideology, When Britain Is Weakest and the U. S. Is War-Weary. Holds There Is No Necessity of War, but There Will Be Unending Tensions and Crises Forcing an Armed Truce.

Russia's First Defeat

"Take them on one by one" was a *leitmotiv* of the Hitler-Ribbentrop diplomacy, and it worked for a while. Similarly, a prime objective of Soviet foreign policy consists in driving wedges between the western Allies, playing up to American antagonism against Britain, French feelings against both, and Central European and Middle Eastern resentments against the West. They cleverly utilize for this purpose the UNO itself, in addition to all devices of publicity and diplomacy, supported by the fifth column methods of Communist parties and fellow-travelers. Sympathies for Britain were to be alienated here and abroad by rattling the bones of British imperialism in Greece, India, Egypt and Indonesia; by charging that the British "threaten" Russia by Polish and Nazi armies; that they support Fascist regimes in Spain, Italy and Greece; that they use Japanese troops against natives whom they supposedly mistreat; that they are preparing a western bloc (while in reality Moscow is organizing and arming an eastern bloc) etc., etc.

Dr. Melchior Palyi

Already during the war the blame for the lack of a second front was being put at London's doorstep. Since, Moscow questions at every turn England's motives, alleges sinister intentions, ignores all friendly gestures (such as Bevin's offer to lengthen the Russian-British alliance to 50 years) and carries on an unrelenting campaign that goes so far as to incite trouble among the Arabs, Indians, Javanese, etc. At the same time, Russian criticism of the U. S. A. was conspicuous—until a month ago—by its absence or relative mildness. Even the attacks on MacArthur were toned down, and Soviet dissatisfaction with our policies in Japan is expressed mainly through non-participation.

Moscow's bluff in playing up one ally against the other has been called. The end of that policy was ushered in by sharpening dissension with Washington on such "minor" issues as Austria, Korea and Bulgaria. The Iranian and the Manchurian conflicts brought U. S. diplomacy fully on Britain's side. That is the positive meaning of the verbal lashing which one American spokesman after the other administered to Russia, climaxing in the protests notes of Mr. Brynes on account of Russian behavior in Manchuria and Persia. Their meaning is clear at least on one point: that our foreign policy cannot be separated from the British (and the Chinese?). That is the first major defeat, or rather the first rebuke, Russian diplomacy has suffered since 1942.

Anglo-American Fiasco

However, if the Kremlin has to recognize this development as a rebuke, the Allies have every reason to view it as a complete fiasco of their own policies. For almost five years they have been

(Continued on page 1666)

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Are Price Controls Necessary For the "Unprotected"?

By F. A. HARPER*
Professor of Marketing, Cornell University

Asserting That Price Controls Are Adaptation of False Notion That Government Can Perform Temporal Economic Salvation, Prof. Harper Argues That Such Controls Tend to Become Permanent. Points Out That Greatest Production and Protection of Poor Comes Without Price Controls, Since Controls Clog the Economic Pipe Lines and Reduce the Size of the Melon to Be Divided Among Consumers, as Well as Causing Its Inequitable Distribution. Contends Controls Generate Wholesale Unprotection and Foster Practices of National Socialism, Make People Waste Time Waiting in Line, Create Black Markets and Put Premiums on Dishonesty. Concludes "We Should Junk the Entire Control Machine Now."

It is claimed that wage and price controls must be maintained to protect the American people against disaster. We must inquire: Protect against what disaster? Protect all of the people or some of the people? Do these controls accomplish what is claimed for them?

F. A. Harper

This is no small subject. What we are really discussing is the whole general philosophy that has been sweeping across this country and a large part of the "civilized" world. It is a reversion to the pattern of most of history—the belief that *government* can perform temporal economic salvation for the people. This country was founded, and has enjoyed unique success, in the belief that the reverse was true. Wage and price controls are an adaptation of that historically unsuccessful notion.

Protection Against What?

It is impossible to be protected against nothing. The protectionist argument can have no meaning unless there is a threat or a fear, real or imagined.

What are these fears? Consumers fear inflation and producers fear deflation; governmental officials apparently fear both at the same time, which may be called uncertainty and confusion. Producers fear that wage rates will go up and workers fear that they will not. Business fears falling profits. The returning veterans fear that they will have to continue to live in tents. The ladies fear no nylons, the men fear no shorts, and the shorts fear a bull

*An address by Prof. Harper before the General Session of the National Industrial Conference Board, New York City, March 21, 1946.

(Continued on page 1654)

Inflation Under Price Controls

By ALAN H. TEMPLE*
Vice-President, The National City Bank of New York

Asserting That the Increase in the Supply of Money Is the Original and Primary Source of Inflationary Pressure, Mr. Temple States That Price Control Does Not Operate to Reduce the Money Supply or Prevent Its Further Increase. Contends Also That Low Interest Rates Are a Further Inflationary Pressure Not Affected by Price Controls. Holds Direct Attack on Basic Causes of Inflation Can Be Made Through a Monetary and Fiscal Policy That Reduces Money Supply, and Attacks Recent Wage Increases as Intensifying Inflationary Trend. Says Price Controls Restrict Producton and Urges That if Price Control Act Is Continued, It Should Be Less Restrictive, Since the System of Free and Voluntary Association in Productive Enterprise Cannot Function Properly Under It.

Inflation means different things to different people. The most useful description of inflation, and the one best calculated to promote sound thinking as to its cure, is one which emphasizes its causes rather than its effects. In inflation three conditions exist. One is that people have a lot more money than before. The second is that they spend more freely instead of saving the excess. The third is that there are not goods and services in the markets to satisfy the enlarged demands. These conditions push prices up. The price increases are the effect, the consequence, of the three basic inflationary influences.

Alan H. Temple

All wars have resulted in inflation, because in war the increase in government debt leads to an increased supply of money. At the same time a large part of current production is for war instead of civilian use, and the goods are not available for purchase by the people who receive the money. The war is over, and the war goods

*An address by Mr. Temple before the 277th meeting of the National Industrial Conference Board, New York City, March 21, 1946.

(Continued on page 1670)

Production or Unrealistic Controls?

By ROBERT A. SEIDEL*
Vice-President and Comptroller, W. T. Grant Company

Contending That OPA's Current Unrealistic, Theoretical and Unfair Approaches to Pricing Problems Are Impeding Production and Throttling Industrial Activity, Prominent Retail Executive Urges That Industry Insist That Congress Restrict It and Require Removal of All Inflationary Controls. Cites OPA Powers That Require Elimination or Restriction and Gives Illustrations of How High-Priced Novelties Are Obtainable When Consumer Essentials Are Lacking. Denies Industry Favors Inflation or Resists Realistic and Honest Regulations and Accuses OPA of Using Gestapo Methods. Attacks Cost-Absorption Policy.

Robert A. Seidel

The stupidity and incompetence of the Office of Price Administration is costing the American consumers billions of dollars per year, and it is high time that consumers be advised of the real effect of unfair and unworkable pricing regulations. Now our brain trusters in Washington have a new "prize package" which they call a "Wage-Price" formula containing new and more complicated methods of curtailing production, squeezing profits and stimulating inflationary trends. It's hard to

*An address by Mr. Seidel before the 277th meeting of the National Industrial Conference Board, New York City, March 21, 1946.

(Continued on page 1668)

Replacing Resigned Securities Commissioners

SEC Vacancies Afford Important Opportunities for Relief to Securities Industry by Proper Replacements. Appointment of Political Hacks or the Moving Up of Present Employees of the Commission Opposed. Some Qualifications Suggested. Background of Prospects Should Be Publicized. Dealers, Brokers and Underwriters Through Their Congressmen Should Arrange for Commendable Recommendations.

The resignation of Commissioner Sumner Pike becomes effective April 30.

In the meantime, Chairman Ganson Purcell has also tendered his resignation, which is now on the desk of the President.

If that resignation is accepted there will be two vacancies to be filled, and the calibre of the replacements is of vital importance to all those whose activities are affected by the rulings of the SEC.

Understanding the significance of the patronage system,

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The Inflation Outlook

By ROBERT R. WASON*
President, National Association of Manufacturers

NAM Executive Asserts That We Are in the First of Two Stages of Inflation, and That a Policy Should Be Put Into Action to Prevent the Second Stage, "Runaway" Inflation. As Safeguards Against Runaway Inflation He Proposes (1) All-Out Production by Elimination of Price Controls; (2) A Sound Wage Policy; and (3) A Sound Fiscal Policy With a Balanced Budget of Not Over $20 Billions. Contends OPA Is Impeding Production and That Price Ceilings Will Not Hold. Says Nation's Economy Must Be Expanded to Meet Heavy Increase in National Debt.

It is fitting that inflation be discussed in New England. Here, where dwell 24% of the American people, are 17.3% of the savings (savings and time deposits) of the nation. The rigors of the New England climate and the limited fertility of your granite hills long have taught you the toil and thrift that made New England great.

Robert R. Wason

In an era of public debt and deficit, New England adheres to the gospel of economy, of work and of common sense that always kept us free, and that alone can regain our liberties lost in thirteen years, peace and war. Here in New England, the arts and crafts had their earliest and highest expression. It was here that American manufacturing received its first and best lessons. Lacking coal and iron, New England built its factories in Boston and on the waterfalls of the Connecticut and other rivers. Lacking raw materials, it built ships that searched the seven seas and brought the riches of other lands to make New England rich in every generation for the past two centuries. Yankee ingenuity devised ways and means of fabricating goods for available markets that now are imitated and reproduced throughout America and in other parts of the world.

When labor was scarce, you produced tools that increased labor's productivity. When markets in the West expanded and quantity manufacturing was needed, New England produced repetitive tools that are the foundation of the American machine tool industry. In New England you have many of the finest precision tool manufacturers in the world.

When the leather industry grew to large proportions in New England, you financed the industry in all parts of the world. The First National Bank of Boston

*An address by Mr. Wason before the Boston Chamber of Commerce, Boston, Mass., March 21, 1946.

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Contests NAM Views on Inflation

Chairman Eccles of FRB Holds Enormous Accumulation of Savings and Liquid Assets Are an Inflationary Menace. Questions Wason's Interpretation of Figures.

Chairman Marriner S. Eccles of the Federal Reserve Board issued a statement on March 25 in which he attacked the testimony of President Wason on the National Association of Manufacturers to the effect that the enormous accumulation of liquid funds available to the general public does not constitute an inflationary danger at this time. The text of Mr. Eccles' statement follows:

Marriner S. Eccles

NAM on Liquid Assets

President Wason of the National Association of Manufacturers in his testimony in opposition to the extension of the Price Control Act on March 18 commented on an earlier statement by Mr. Bowles with regard to the inflation potential inherent in the accumulation of wartime savings. In discussing consumer demand, Mr. Bowles stated that wartime savings of the people now amount to $145 billions. He appraised the significance of these savings as follows:

"Should people, whether consumers or businessmen, once lose confidence that the price line will be held and rush to meet future needs ahead of anticipated price increase, these vast wartime savings could throw the Nation into a wild inflationary scramble exceeding any it has ever experienced."

Mr. Wason apparently interprets Mr. Bowles figure of 145 billion as referring to the Federal Reserve estimate of liquid assets (that is currency, deposits and U. S. securities) held by individuals and trust funds at the close of 1945. Although Mr. Bowles' reference was to different data, Mr. Wason's interpretation will be followed for purposes of these comments.* How, then, does Mr. Wason manage to reduce his initial figure of $145 billions to a mere $17 billions, and how does he conclude that these assets do not constitute an inflationary danger if only production is allowed to expand without price ceilings?

Mr. Wason's Figures

(1) At the outset it must be noted that Mr. Wason's total of $145 billions is no overall figure for liquid assets held by the public. It is limited to personal holdings only and excludes holdings by corporations and unincorporated businesses. If $52 billions of corporate holdings (excluding banks and insurance companies) and $28 billions of holdings by unincorporated businesses are added, the overall figure for December, 1945 becomes $225 billions.† Business demand at this time is as much a part of the inflation problem as are purchases by consumers. The danger of excessive inventory accumulation is an important factor. Thus, liquid assets held by businesses, as well as by individuals, are part of the broader picture.

(2) Even the $225 billion holdings for these groups is not all inclusive. It excludes Treasury deposits which will be added to private cash holdings and checking

*Figures used by Mr. Bowles were derived fom Dept. of Commerce estimates of individual savings during the war period. By coincidence the total happened to be the same as FRB figures for total personal holdings of liquid assets as of Dec. 31, 1945. Accordingly, Mr. Wason's interpretation is readily explained.

†For a breakdown of these figures, see Federal Reserve Bulletin for February, 1946, p. 123.

(Continued on page 1683)

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A Post-War Economic Policy

By BERNARD M. BARUCH*

Elder Statesman Recommends a Series of Proposals, Chief Among Which Are: (1) Increased Production; (2) Curtailment of Increasing Money Supply; (3) Maintaining High Taxation for Balanced Budget; and (4) Cessation of "Bunking" the Public by Saying Wage Increases Can Be Granted Without Increasing Prices. Wants Price and Wage Controls Modified and Continued for a Year and Action Taken to Stimulate Small Business, but Says Price Controls Alone Will Not Be Effective. Denounces the "Race of Selfishness" and Warns That the Price Structure Should Not Be Interfered With. Criticizes New Wage-Price Policy as Causing Price Increases All Along Line, and as Squeezing Taxable Profits. Holds We Should Take Stock of Our Resources Before Financially Aiding Other Nations.

I feel honored at being requested to appear before you on the important subject of price control.

Bernard M. Baruch

In these days of speed and emergency, it is good practice to put suggestions in a form so that "he who runs may read," and to aid the digestion of his reading I am submitting at the outset, certain of my ideas in capsule form. Here they are:

Increase production. This is the Law and the Prophets—without it the rest of my suggestions are meaningless. So I say again: "Increase production."

Stop increasing money supply.

Stop decreasing taxes until budget is balanced.

Stop bunking the public by saying wage increases can be granted without increase in price levels.

Do not fear to increase prices or wages where necessary to get and stimulate production.

Continue price controls, subject to indicated modifications, for a year. Allow profit but no profiteering.

Avoid favoritism to any particular group.

Take care of those between the millstones — clerks, government employees, pensioners, et al.

Make surpluses of goods in military hands available to compensate for shortages.

Stimulate founding and financing Small Business.

Take stock before blindly lending—make inventories of our goods, our cash, our credit before we increase the pressure on these.

Save in Time of Inflation

Cut Government costs, including Federal, State, County and City. In time of deflation we should spend; in time of inflation we should save.

Eliminate all strikes or lockouts for a year but arrange that hardships are guarded against.

Set up a High Court of Commerce—a sort of Supreme Ecomic Council which can decide

*Statement of Mr. Baruch before the House Banking and Currency Committee, March 25, 1946.

(Continued on page 1673)

The Marketing of The World Bank Bonds

By WALTER C. LOUCHHEIM, JR.*

Advisor on Foreign Investments, Securities and Exchange Commission
Technical Expert at Inaugural Meeting of World Fund and Bank

Mr. Louchheim Discusses Various Methods Available to the International Bank in the Marketing of Its Direct Obligations and the Guaranteed Bonds in the U. S. Predicts That Bank Will Not Have Investment Bankers Underwrite Its Obligations, but Will Use Their Services and That of Other Institutions as Selling Agents. Says Bank Has Authority to Engage in Market Stabilization Operations, and That Bonds Guaranteed by Bank Can Be Marketed Through Private Negotiations. Lists as Probable Purchasers, the Commercial Banks, Trust Funds, Charitable Institutions and Individuals. Sees Need of State Legislation to Permit Insurance Companies and Savings Banks to Invest in Both the Direct and Guaranteed Issues of the Bank.

W. C. Louchheim, Jr.

This article will discuss two questions which the directors of the International Bank for Reconstruction and Development will face shortly after beginning operations, that is within the next six months. The questions are (1) How can the Bank best market its securities in the United States—in other words, what distribution methods and facilities are available to it; and (2) who may be expected to buy the direct or guaranteed bonds of the International Bank, or among what groups of investors is it likely to find its most receptive customers? The answers to these questions are all-important for the successful functioning of the Bank in view of its almost complete dependence upon the private capital markets for its funds. This dependence derives from the division of its subscribed capital, only 20% of which will at any time be available for loans, so that for at least 80% of its loans, the Bank will have to raise funds in the capital markets of its members. This in turn means that for the foreseeable future the Bank will call upon private investors principally in the United States, and to a much lesser extent in Canada and a few other creditor countries, to finance substantially all of the reconstruction and development projects which it approves.

This discussion will proceed upon several gratuitous, but seemingly quite reasonable, assumptions as to the motives which will impel the Bank's directors in marketing the bonds. For example it assumes (1) that the directors will wish to effect as wide a distribution of the bonds as possible and among all classes and sizes of investors; (2) that, therefore, they will not wish to select the distribution facilities of any particular segment of the investment industry but will employ in their offerings those methods most conducive to the public interest and that of investors in general; (3) that every effort will be made to avoid the possibility of undue

(Continued on page 1662)

*The views expressed in this article are those of the author and do not necessarily reflect official opinion of the Securities and Exchange Commission or other government agency.

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Echoes of the Savannah Meeting

By HERBERT M. BRATTER

Ambassador Caceres From Honduras Sees a Tremendous Job Ahead for World Fund and Bank. Hugues Le Gallais, Luxembourg Minister to Washington, Sees Possibility of American Investment in His Country's Industry. Peruvian Governor of Bank Speaks of Plan to Adjust Debt Issued in United States. Reaction of Foreign Officials to Salaries Established.

SAVANNAH, GA.—The following statement to the "Chronicle" from Julian R. Caceres, who is Honduran Ambassador in Washington and his country's Governor on the Fund and Bank, illustrates the importance which Latin Americans attach to the words "'Reconstruction" and "Development" in the International Bank for Reconstruction and Development:

Herbert M. Bratter

Statement of Governor Julian R. Caceres, of Honduras

"The Republic of Honduras, inspired by the principle of international cooperation, signed unreservedly on July 22, 1944, the Bretton Woods Agreement concerning the International Monetary Fund and the International Bank for Reconstruction and Development, and on Dec. 27, 1945, she deposited in the State Department the instruments of ratification of these Agreements.

"The stabilization of international currencies, which is one of the most important aims of the Fund, is not only a means for the exchange of products but is also intended to encourage peace and work all over the world. To reconstruct the devastated areas ravaged by the last war in Europe and in Asia and to develop the progress of other allied countries, like the American republics, constitutes one of the loftiest duties of the Governments, which, with their respective peoples, won the war against the Totalitarian Powers.

International cooperation means, in this particular instance, a common undertaking and a global economic contribution of all the allied nations to revitalize the countries isolated by war and it also means to put in motion the enormous potentialities possessed by countries, which, like those of Latin America, offer to the welfare of mankind.

"The International Fund and Bank will confront a tremendous job in Europe and in Asia, but, also, these institutions will have a lot of work to do in the Latin American countries. It seems to me that reconstruction in Europe is the term of an economic equation which, in a global sense, will be complemented by the development looked for by the nations of the American continent.

"International trade, and consequently international economy, are closely related to the exploitation of the natural resources of the New World. Likewise the reconstruction of other countries is ad-

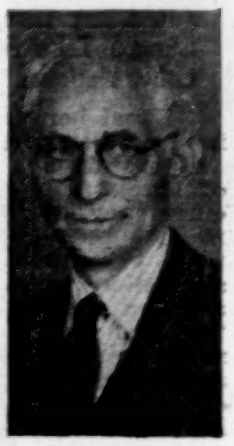
(Continued on page 1672)

Statistical Miasma and Administrative Blunders

By A. M. SAKOLSKI

Calling Attention to the Recent Repudiated Statistical Estimate Made Through the Commerce Department Regarding the Auto Industry's Ability to Pay Increased Wages, Dr. Sakolski Points Out the Defects and Difficulties in Statistical Research Along These Lines. He Refers in Particular to the Various Studies of Growth of Capital and National Income as Illustrations of Attempts to Ascertain That Which Cannot Be Computed Statistically and Cautions Against Using Such Material as Guides to Administrative Policy.

Within recent weeks there has come to light a sort of political scandal arising from the repudiation of an official report purporting to show from reliable data that automobile manufacturers would be able to increase wages 24% without the need of higher prices for their products. This report, highly publicized, was used by the President's "unofficial" fact - finding board in arriving at its decision recommending a 19½¢ per hour increase for General Motors' employees. But, despite the protests of manufacturers, who questioned the accuracy and authenticity of the data, and despite the demands for the verification and sources of the figures, it was not until after the workers and General Motors agreed upon a wage settlement, that Secretary Wallace in effect retracted the report, and made a statement admitting the "inherent uncertainties in projecting cost, price and profit relationships for any specific industry and even for industry as a whole," adding that "Such projections are obviously dependent on assumptions as to future costs, ceiling prices and specific methods of projection." This is equivalent to saying that such figures are mere guesswork. They "were not intended," Mr. Wallace stated, "nor should they have been recorded as official forecasts of costs, prices or profits for the automobile industry or for industry as a whole."



A. M. Sakolski

This fiasco and statistical hoax is, in my opinion, only a forerunner of many others that will happen in the future unless government officials, economists, statisticians and others (who rely on the same sort of compilations for arriving at their views and shaping their policies), exercise more restraint and greater caution in their use. Indeed, there is a question whether, in many cases, statistical exercises of this nature, even though scientifically and conscientiously prepared, are much better than mere scientific guesses.

Capital Growth and Income

Thus, considerable statistical work has been done in the last decade regarding the sources, character and rate of growth of

(Continued on page 1647)

The Outlook for Mortgage Lending

By RAYMOND RODGERS*

Professor of Banking, New York University

Professor Rodgers, Pointing Out That Mortgage Lending Has Been Affected by Low Interest Rates and Price Level Changes, Holds Outlook for Higher Interest Is Dubious Because of Plethora of Investment Capital, Government Fiscal Policy, and Forces Increasing Bank Deposits. Says Effect Has Been Not Only to Lower Mortgage Interest Rates, but Also to Increase Real Estate Valuations. Contends Many Mortgage Lenders Have Contributed to Inflationary Valuations by Not Exercising Caution and Restraint. Sees Housing Shortage Due to Swollen Incomes and Looks for Continued Shortage for Two or Three Years, Followed by Reduction in Real Estate Values, Particularly of Old Homes and Small Business Properties.

Mortgage lenders have always had the problem of operating between the Scylla of interest and the Charybids of appraisal. Fundamentally, sound mortgage lending administration resolves itself into proper policies and management with respect to these factors of rate of interest and soundness of appraisal. Never have these problems been more pressing nor the solutions more elusive than at present.

Raymond Rodgers

Interest rates have dropped so low that in the Congressional halls representatives of the people glibly talk about the issuance of non-interest-bearing Government "bonds" to the commercial banks! All sections of the money market and all branches of the capital market have felt the tremendous impact of the serious decline in the rate of interest.

Mortgage rates have been no exception to this general decline in interest. In this field, too, rates have dropped sharply giving a much smaller margin for the servicing of the loans and for the

*An address by Prof. Rodgers before annual meeting of the Federal Home Loan Bank of Cincin-

(Continued on page 1667)

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The Postwar Boom In Capital Goods Industries

By A. W. ZELOMEK*
Economist, International Statistical Bureau and Fairchild Publications

Business Economist Predicts That Activity in Capital Goods Industries Will Until 1950 Average 100% to 200% Above Prewar. This Will Actually Be Furthered if International Tensions Continue, Because of Their Stimulation of Defense Expenditures. Mr. Zelomek Forecasts a Very High Level of Non-Residential Building for at Least 5 Years. He Anticipates More Favorable Psychological Attitudes by Businessmen, Which Will Remove Restraints on Private Investment.

Importance of Capital Goods Industries

It is generally agreed that the capital goods industries are vitally important in the American economy. In fact, business men are sometimes shocked when they find that private capital formation is no greater than it has been in the past. Why, then, is it so important? That question is answered when we note the wide fluctuations in capital investment during periods of depression as compared with those of prosperity. The industries act as a strategic and accurate barometer of business health.

A. W. Zelomek

Private gross capital formation in 1932 was only $2.2 billion. Main items in this were expenditures for plant and equipment; net change in inventory; and net balance of foreign trade. In 1929 it had been $17.6 billion. That great difference marks the distinction between prosperity and depression. Investment activity, in short, can be regarded as a plain indicator of good or bad business conditions. It is rather pointless to argue whether good business will automatically stimulate investment, or whether a high level of investment will automatically produce good business. The fact remains that the two are associated physically and connected psychologically.

This last point has considerable significance. In 1937, the prewar year of peak recovery from the

*A speech by Mr. Zelomek before the Purchasing Agents Association of Eastern New York, Albany, March 21, 1946.

(Continued on page 1661)

The Near East Oil Dispute

A cooperative rather than a purely political and legalistic approach to the tangled oil dispute in the Near and Middle East is urgent if a sane solution of the problem is to be reached, Dr. Frederick Haussmann, formerly technical adviser to the Government of Venezuela and international expert on oil, declared on March 23.

Frederick Haussman

Addressing a Round Table held at the New School for Social Research on "The Anglo-American Oil Agreement and the New Situation in the Near East," attended by representatives of oil companies and students, Dr. Haussmann asserted that the Iranian dispute is threatening the working of the UNO. It is regrettable, he added, that the Anglo-American oil agreement is not yet ratified, for its elastic organization would offer a neutral basis for discussion with Russia and other parties to the dispute.

"It is time to rescue truth from rumor," he continued, "to piece together the established facts without prejudice and propaganda and to arrive at a sane judgment of the rights and wrongs of the different national positions. The reference made by Russia to the treaty of 1921 with Iran, though it cannot justify any prolonged military occupation, demonstrates that the whole Near East oil problem needs a thorough reconsideration."

Dr. Haussmann cited figures to show that the new Middle East oil discoveries have brought the reserves in this region to 26.8 billion barrels, while the United States oil reserves are estimated at 21.5, and Venezuelan reserves at 5.6. The Russian reserve estimate of 5.7 billion barrels is generally regarded as far too low, Dr. Haussmann stated.

Calling for a marketing understanding with respect to Eastern and Western Europe, Dr. Haussmann pointed out that Russia would thus receive bitterly needed drilling and refining equipment from American firms to increase her domestic oil industries and the oil supply for her industrial development.

Investigate Before You Invest In Hotel Securities

By ARTHUR S. KLEEMAN
President, Colonial Trust Co., New York City

Bankers Warns Investors That the Present Prosperity in the Hotel Industry Is Based on the General Wartime Boom. Mr. Kleeman Points Out That the Present Inflated Volume Will Be Required to Support Higher Costs, and the Equity Behind Current Earnings Is Very Thin. He Recalls the Financial Collapse Following the First World War, Occasioned by Previous Over-Building and Unsound Financing.

The present crowded condition of the nation's hotels, particularly in larger cities, prompts some casual observers, as well as professional prognosticators, to proclaim that the country needs a boom in hotel building.

Arthur S. Kleeman

Unquestionably, some cities do need new hotels, but investment bankers, individual investors, or communities, before expending their money, should get the full facts.

Many of us who have had long experience in the banking business have heard such stories before. Hotels were crowded during World War I. It appeared then, as it appears now, that new hotels were a real necessity. At that time a boom was born, but not long afterwards the catastrophic results of overbuilding were written in bright red ink.

The record reveals that the $5 billion hotel industry now is operating at a fair profit for the first time since the '20s. 1944 sales of $1½ billions were more than 50% over 1929, the industry's best peacetime year, and on the face of it, it would appear that the future is bright. But the above-mentioned unbridled boom in new hotel construction after World War I resulted in financial collapse. By 1935, 81% of the nation's hotels went into bankruptcy, foreclosure, and/or reorganization. The prime reason for this was that hotels were going up faster than improving business conditions could furnish the guests to occupy the over-supply of rooms.

The barometer of the hotel business is *occupancy*. Before the war operating costs were covered when occupancy reached 65% of capacity. Today the "break-even" point has risen to more than 80%,

(Continued on page 1645)

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Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Prices slowly approaching new zone of decision. Present advance points to further intra-strength. But until averages pass certain obstacles future still doubtful.

The slow creepy advance of the past few days is meaningless so far as the main trend is concerned. It will continue meaningless until a few things happen. On the upside the familiar industrials will have to go through their old highs of 206.97 while the rail averages either stand still or also manage to move above the 68.23 figure established the early part of February.

If the above is seen the market is still in a bull trend, even if the news sounds ominous. Of course, the above figures mentioned are the ultimate. In practise it is not necessary to wait for such full confirmation. The fact that the industrials can show a desire to take stock across the 200 figure might be sufficient to point to a maintenance of a bull trend. But there must be a distinction between the desire and the ability to penetrate a previous mass. Right now the desire is present. But then a contra-swing of the pendulum is always present after it has moved in a wide arc in any opposite direction. It is what happens after it hits dead center that becomes significant.

* * *

The action of the rails is something else again. I think the majority of traders while

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Public Utility Securities

Reorganization Progress of the New England Utility Holding Companies

The three New England holding companies—N. E. Public Service, N. E. Power Association, and N. E. Gas & Electric—have all made marked progress in the past few weeks or months with their respective recapitalization and integration programs, under SEC supervision.

New England Public Service (NEPSCO) last October arranged with court approval to sell its industrial properties to a group headed by First Boston and Coffin & Burr for $16,000,000, a far better price than it could have realized in earlier years. This sale clears the way for a final distribution of cash and securities, after further details are cleared up.

The New England Power Association (NEPA) amended plan was recently approved by SEC. The plan provides for substitution of a single holding company for NEPA and its four sub-holding companies. The plan must now be approved by a Federal district court, and the SEC is expected shortly to apply for such an enforcement order. It is thought that while some of the sub-holding company security holders may continue to voice disapproval of the exchange terms accorded them, this will not involve protracted litigation, since minor adjustments could probably be effected if necessary without disturbing the main outlines of the plan.

The plan provides for a merger of all the holding companies with the parent company and the issuance of $85,000,000 bonds, and 6,695,075 shares of $20 par value common stock, the latter to be allocated (together with cash in some instances) to various public stockholders of New England Power and the sub-holding companies. Under the plan each share of NEPA preferred stock (with arrears) would be exchangeable for 5⅔ths shares of new common stock.

The company has estimated future earning-power within three years after consummation of the plan at $1.59 a share on the new common stock. Based on such estimated earnings it seems reasonable to expect that dividends on the new common might be paid at the rate of $1-$1.20, with the balance "plowed back" into the operating companies. Assuming a dividend rate of $1.10 and a 4¾% yield basis, the common stock might eventually be worth in the neighborhood of $23 a share. If these assumptions prove correct, the equity value for the present preferred (which advanced from around 87 to 100 after approval of the plan was announced) might work out at around 122.

New England Gas & Electric (NEGEA) has announced the main outlines of a new plan following a compromise settlement of litigation with the Associated Gas system (now General Public Utilities), which owns the second preferred and common stocks. Like other systems, NEGEA has greatly benefitted by the big advance in operating company stocks in recent years. Several years ago the company was greatly concerned over SEC efforts to enforce the theory that bonded debt should amount to only 50% of capital structure (or of net plant account). At that time such a readjustment would probably have left little or no value for the preferred stocks. Now, however, with a much more liberal appraisal of the portfolio value, the bonded debt can be sharply reduced without hurting junior stockholders. Approximately $35 million bonds will be retired with proceeds of $22.5 million new sinking fund collateral bonds and $11.5 million (sales value) new common stock, together with about $1,000,000 Treasury cash. The old preferred will get 84½% of the **remaining** common stock (the plan is flexible in this respect) with the balance going to General Public Utilities for its holdings of second preferred and common (and in settlement of litigation). The new financing probably won't come for at least several months, since it has to go through the SEC and a Federal Court.

It is difficult to make any accurate estimates of earnings on the new basis until a pro forma income statement becomes available. However, based on a rough estimate, common stock earnings on the 2,300,000 shares might work out as follows: Including the consolidated return tax credit (which would be reduced somewhat if the New Hampshire sub-

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Railroad Reorganization— The New Government Policy

By ELISHA M. FRIEDMAN

Economist Notes That the Pleas of Small Stockholders Are Now Being Heeded, the Senate Committee Having Revised Bill S. 1253 to Include Roads Now in Courts. Urges That These Roads Be Returned to Stockholders. He Declares That Railroad Reorganizations Need Not Be So Drastic, as Present Property Replacement Values Are Greatly Above Total Debt. He Recommends Establishment of a Joint Congressional Committee on Transportation; and Noting That No British Railroad Has Failed Since 1923, He Urges That Such Committee Visit England to Study Their Coordination and Consolidation.

I

The Small Railroad Stockholder Has Finally Been Heard

Threatened with confiscation, the owners of shares in bankrupt railroads deluged their Representatives and Senators with pleas to pass the Hobbs Bill. Senators Wheeler and Reed stated at the recent hearings of the Interstate Commerce Committee that public opinion would undoubtedly force action to avert expropriation of the railroad stockholders, and that the Hobbs Bill could easily pass the Senate if the bill were allowed to come to the floor for debate.

Elisha M. Friedman

On the eve of apparently the greatest boom in American history, Commissioner Mahaffie of the ICC had drafted a bill, S. 1253, providing for **future** reorganization of railroads. But, amazingly, he utterly ignored the $2 billion of par value of common stock which is now in process of being destroyed in the midst of prosperity. Yet the ICC since 1920 had approved, for issue, 100% of the no-par value common stock and 38% of the $100 par stock which it is now declaring worthless.

Senator Wheeler took a bold step. It attests to his open-mindedness and his fundamental faith in the democratic process. He rewrote the Mahaffie bill. As he stated at the hearings repeatedly,

(Continued on page 1674)

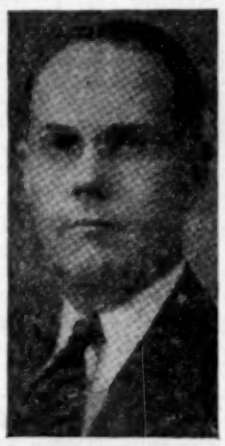
Investment Education And Publicity

By HAROLD JOHNSON

Vice-President National Association of Securities Administrators
Assistant Director and Counsel, Bureau of Securities,
State of Nebraska

Official of National Association of Securities Administrators Calls Attention to Present Conditions Which Require Immediate Action to Protect Investment Public From Stock Swindlers. Urges That More Reliance Be Placed on Prevention Before Public Incurs Losses Than on Punishment After the Act, and Outlines an Educational Program to Be Given Wide Publicity. Describes Methods of Stock Swindlers and Draws Attention to Canadian Mining Boom and the Steps Being Taken to Prevent Wild Speculation in Mining Shares. Cites Action by Nebraska Bureau of Securities.

Now, in the year 1946, there are more people in the United States with money to invest than there have ever been before. Incidentally, there is a larger percentage of this investing public which knows little or nothing about investment than has been the case before. The market for tangible goods is restricted and uncertain. The very human urge to make a little money "run into a lot quick" is present as always.



Harold Johnson

These conditions all add up to something resembling a swindler's paradise, especially a phony-stock salesman's paradise. Here are inexperienced people with a little money believing in the great industrial America of which they have heard so much. They hear everywhere of the changes in our way of life which are to come about on account of the great scientific discoveries of the war period. They hear of real development of areas hitherto inaccessible; of the finding of new supplies of metals and of new strikes of oil. They are ready to be convinced of the financial profits to be made in backing new inventions or in opening up new land for the production of gold or ura-

(Continued on page 1671)

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IN THE MARCH ISSUE:
☐ The Anglo California National Bank of San Francisco
☐ Creameries of America, Inc.
☐ Hunt Foods, Inc.
☐ Pacific Western Oil Corporation

Schram Scores Curb On Free Markets

In Annual Report of the New York Stock Exchange, He Points Out That Inflation Pressures Upon Stock Market Has Been Subject of Misinformed Discussion and That Remedy Lies Not in Curbs on Speculation but in End of Deficit Financing and Reduction of Bank Bond Holdings. Reports Increase in Stock Exchange Transactions and Income.

Emil Schram, President of the New York Stock Exchange, made public on March 15, the 1945 Annual Report, which, in addition to furnishing information regarding the volume of transactions on the Exchange, the condition of its finances and other similar data, contains a statement regarding inflation pressures and the policy of the Administration for curbing speculative stock transactions.

Emil Schram

"The impact of inflation pressures upon the stock market," Mr. Schram stated, "has been the subject of much uninformed discussion. There have even been suggestions that the advance in security prices was a primary cause of inflation. The most unfortunate effect of such suggestions has been to confuse people as to the real underlying causes and, possibly, to postpone the application of realistic remedies. It may be remarked, in passing, that the market would have been insensitive indeed if it had failed to reflect the inflationary dangers that exist.

"Solutions for the problems of inflation are to be found, not in interference with free markets, but in intelligent measures to release our great productive capacities, in an early end of deficit financing through a balanced budget, and in a sound national debt policy.

"Mr. Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System, only recently pointed out that 'the primary source of the inflation danger which overhangs the domestic economy on all fronts is the vast accumulation of currency and bank deposits at the disposal of the public' and that 'so long as the public debt continues to be monetized through the purchase of Government securities by the banking system the supply of money will continue to increase, thus tending further to reduce the interest rate on savings and investment funds.'

"Mr. Eccles is correct, of course, in that increasing government debt has been not only the chief factor in the growth of deposits, currency and government securities, but also the chief factor in the present easy money conditions. The time has come, it seems to me, for a comprehensive examination of our national debt policy, including the distribution of the debt by classes of holders and maturities; and for an objective study of the question whether, and to what extent, unprecedentedly low interest rates now prevailing are desirable from the viewpoint of the public interest.

"The main problem is to reduce the holdings of the commercial banks and to increase the proportion of the Federal debt in the hands of individuals and other non-bank investors, such as insurance companies and mutual sav-

(Continued on page 1665)

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NOTE—*From time to time, in this space, there will appear an advertisement which we hope will be of interest to our fellow Americans. This is number 119 of a series.*
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Talking Figures

By MARK MERIT

Figures are "talking-up" in this piece—and not in a whisper. The reason? We hear frequently that the present-day consumption of distilled spirits, whiskey, gin, etc., "is enormous" so let's give the figures a chance.

There are three factors which should be considered.

1. *Per capita consumption*
2. *Average national income*
3. *Population*

In the years 1900 to 1917, the average per capita consumption of distilled spirits was 1.59 wine gallons (a wine gallon consists of 128 ounces). The average national income during these years was $33.9 billion. The average population of the United States during this period was 93 millions.

The figures for 1918 and 1919 have been omitted because they are not representative. A number of states had adopted prohibition before the eighteenth amendment was finally adopted in 1920. There is no way of estimating the amount of illegal whiskey consumed in the United States during the years 1918 and 1919.

Now, let's take the years following repeal. From 1934 to 1944, the average consumption per capita was 1.02 wine gallons. In 1945 the estimated consumption was 1.40 wine gallons.

Since repeal, our population has grown from 126 millions in 1934 to about 140 millions in 1945. This is an increase of approximately 10%. During that same period, our national income increased from $49.4 billion in 1934 to an estimated *$160 billion* in 1945, or an increase of almost 300%.

The obvious conclusion then, is this. The per capita consumption of distilled spirits is *less* than it was during the ten years prior to prohibition, *despite the tremendous increase in our national income.* America today is not spending as large a percentage of its national income for distilled spirits as it did in the pre-prohibition period, frequently referred to as "the good old days."

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Bank Stocks—special study of the Bank Stock situation and the outlook—Lewisohn & Co., 61 Broadway, New York 6, N. Y.

Bond Switch—detailed circular recommending exchange of "Second Grade" rail bonds for Missouri Pacific 1st and Refunding 5s—Bendix, Luitweiler & Co., 52 Wall Street, New York 5, N. Y.

Building Stocks—study of outlook for these securities, indicating that earnings should run 75% above the 1936-1939 average—E. F. Hutton & Company, 61 Broadway, New York 6, N. Y.

Canadian Stocks—Current Review showing earnings, price range, dividends and yields of 115 Canadian issues — Charles King & Co., 61 Broadway, New York 6, N. Y.

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Ideas for Dealers—current issue of monthly brochure containing details on **Anglo California National Bank, Creameries of America, Hunt Foods, and Pacific Western Oil Corporation**—Kaiser & Co., Russ Building, San Francisco 4, Calif.

January Railroad Review—summary of situation—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Philippine Mining Stocks—memorandum for dealers only giving late details on **Benguet Consolidated Mines, Balatoc Mining Co., Big Wedge**, and **Mindanao Mother Lode**—John J. O'Kane, Jr., & Co., 42 Broadway, New York 4, N. Y.

Railroad Liquid Resources and Debt Retirement — analytical memorandum—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

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American Forging and Socket—Circular—De Young, Larson & Tornga, Grand Rapids National Bank Building, Grand Rapids 2 Mich.

American Phenolic Corporation—Analysis—J. F. Reilly & Co., Incorporated, 40 Exchange Place, New York 5, N. Y.

American Service Co.—Circular—Adams & Co., 231 South La Salle Street, Chicago 4, Ill. Also available is a recent circular on **E. & G Brooke Iron Co.; Michigan Steel Casting Company** and **National Terminals Corp.**

Bird & Son — Memorandum — Buckley Bros., 1529 Walnut Street Philadelphia 2, Pa. Also available are memoranda on **Reda Pump Co.** and **Western Light & Telephone.**

Bost, Inc.—detailed circular on interesting low-priced speculation—Hardy & Hardy, 11 Broadway, New York 4, N. Y.

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Chicago, North Shore & Milwaukee Railroad Co.—situation discussed—Brailsford & Co., 208 South La Salle Street, Chicago 4, Ill.

Chicago South Shore & South Bend RR. — Revised bulletin — Doyle, O'Connor & Co., Inc., 135 South La Salle Street, Chicago 3, Ill.

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Empire District Electric Co.—memo in the current issue of **The Preferred Stock Guide**—G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

Also available is a circular on **the New England Power Association.**

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Home Insurance Company of New York—summary for 1945—Butler-Huff & Co. of California, 210 West Seventh Street, Los Angeles 14, Calif.

Also available are a tabulation of 1945 insurance company results and **Highlights of the Bank of America** based upon the Dec. 31, 1945, statement.

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Kinney-Coastal Oil Company—late data and annual report available—B. E. Simpson & Company, California Building, Denver 2, Colo.

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May Department Stores—analysis showing estimated earnings for 1946 at $7 a share, as against about $2.50 estimated earnings for 1945—Herzfeld & Stern, 30 Broad Street, New York 4, N. Y.

McDonnell Aircraft Corp.—Memorandum — F. H. Koller & Co., Inc., 111 Broadway, New York 6, N. Y.

Midland Utilities and **Midland Realization** — detailed study—write for circular M-3—Fred W. Fairman & Co., 208 South La Salle Street, Chicago 4, Ill.

Miller Manufacturing Co.—Analysis of current situation and prospects for 1946—Comstock & Co., 231 South La Salle Street, Chicago 4, Ill.

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New England Lime Company—Descriptive circular — Dayton Haigney & Co., 75 Federal Street, Boston 10, Mass.

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Mid-South Securs. Co. Formed in Nashville

NASHVILLE, TENN. — Mid-South Securities Co. is being formed with offices in the American Trust Building, to engage in the investment business. Officers of the new organization are Bert F. Madden, President; F. Lee Nelson, Vice President and Secretary; Matthew B. Pilcher, Vice-President and Treasurer; V. M. Choate and Robert H. Jordan, Vice-Presidents; Porter L. Easton, Assistant Vice-President, and Rudolph Lauper, Assistant Secretary and Assistant Treasurer. All are formerly of R. A. Shillinglaw & Co., Mr. Jordan being in charge of the Memphis office.

Bailey & Rhodes Form New Investment Firm

LOS ANGELES, CALIF.—Warren B. Bailey and Foster B. Rhodes have formed Bailey and Rhodes with offices at 210 West Seventh Street to engage in the investment business. Mr. Bailey in the past was an officer of R. N. Gregory & Co. Mr. Rhodes was manager of the investment department of the First Trust & Savings Bank of Pasadena; recently he has been on active duty with the U. S. Naval Reserve.

Courts in New Location in Charleston, S. C.

CHARLESTON, S. C. — As of April 1st the Charleston, S. C., office of Courts & Co. will be located on the ground floor of the Peoples Bank Building, 18 Broad Street under the co-managership of E. Prioleau Ravenel, Jr. and Robert F. McNab. W. E. Martin, H. L. Matthews and Demal Cochran will be associated with the firm at that office.

Campbell, Carmichael in Charleston, W. Va.

CHARLESTON, W. VA.—John H. Campbell, Jr. and Asa B. Carmichael, Jr., are forming Campbell, Carmichael & Co. with offices in the Union Building to engage in the securities business. Mr. Carmichael was formerly with Kirchofer & Arnold, Inc. and prior thereto with the New York office of Scott, Horner & Mason, Inc. Mr. Campbell was formerly Shelby, N. C. representative for Kirchofer & Arnold, Inc.

Richardson Company — circular on interesting growth opportunity in the plastics industry—Amott, Baker & Co., 150 Broadway, New York 7, N. Y.

Schenley Distillers Corporation—Brochure of articles they have been running in the Chronicle—write to Mark Merit, in care of **Schenley Distillers Corporation, 350 Fifth Avenue, New York 1, N. Y.**

Soya Corporation—late memorandum—Peter Morgan & Co., 31 Nassau Street, New York 5, N. Y.

Spokane Portland Cement—Bulletin on recent developments—Lerner & Co., 10 Post Office Square, Boston 9 Mass.

Thiokol—Descriptive booklet on manufacturer of synthetic rubber, plasticizers and chemicals—Amos Treat & Co., 40 Wall Street, New York 5, N. Y.

Waltham Watch Co.—Descriptive circular—du Pont, Homsey Co., 31 Milk Street, Boston 9, Mass.

Wellman Engineering Company—circular—Wm. J. Mericka & Co., Inc., Union Commerce Building, Cleveland 14, Ohio.

Business Outlook and Trends

By BENJ. H. GORDON*

Regional Business Consultant, U. S. Dept. of Commerce

Commerce Department Spokesman, After Reviewing Reconversion Progress, States the Reasons for His Belief That the Business Outlook for 1946 and 1947 Are Excellent. Sees Immediate Heavy Shortages of Goods and Homes and a Pent-Up Purchasing Power as Assuring Full Employment, but Cautions That When These Factors Disappear, in Order to Prevent Deflation, There Will Be Need of Continuous Technological Improvements to Lower Costs and Keep Up Demand. Looks for Largely Expanded Foreign Trade, and Decries Inability of Other Countries to Pay for Our Exports. Points Out Vital Role of Commerce Department in Shaping Prosperity.

We are in the midst of a significant period in our economic history with strong inflationary and deflationary forces at work. This course is the result of the prodigious production effort we exerted in winning the war. It is to be expected after four fears of forced draft war production running at the rate of 90 billion dollars a year at its peak, a figure higher than our normal total production in peacetime, that serious readjustment problems would develop. The wonder is that the change-over took place as rapidly and as smoothly as it did. For we must not overlook the fact that we suddenly cut our annual war production rate from 90 billion to 25 billion immediately after V-J Day. Indeed we have, with the exception of the industrial areas that concentrated on aircraft, shipbuilding and ordnance, already reconverted or converted all but about 10% of our production facilities, and by fall reconversion will be practically complete, despite the slowdown due to the rash of labor-management disputes that developed during the past few months.

Benj. H. Gordon

In New York State our record is particularly good, showing a loss of only about 8% in manufacturing employment during the period from V-J Day to the first of the year, while the loss for the nation as a whole was about 14%.

Over 52 million workers are at present employed, a number in excess of any peacetime period, and our unemployment of about two and one-quarter million is less than one-third of what was originally anticipated by many economists this spring. It should be noted here that normally we have about two million frictionally unemployed, that is, workers changing jobs and the like.

To be sure, reconversion and full employment have been set

*An address by Mr. Gordon before the Rotary Club of New York City, March 7, 1946.

(Continued on page 1651)

NSTA Notes

NATIONAL SECURITY TRADERS ASSOCIATION

Paul I. Moreland, Moreland & Co., Detroit, Mich., Chairman of the Educational Committee of the National Association of Security Traders, has addressed the following communication to all members of the Association:

"At the request of the Officers and Executive Council, and with the approval of the National Committeemen of the National Security Traders Association, Inc., we are addressing you this important communication.

"You are a vital factor in the economic stability of our nation. Your superior knowledge in connection with financial matters in general and investment media in particular, places you in a position to exert a powerful influence toward the use of our public savings. Because of our position, we have a very definite obligation and responsibility to aid in all ways possible to safeguard the wartime savings now in the hands of the general public.

"As of Dec. 31, 1945, approximately $64 billions in Federal securities, $54 billions in savings accounts, and $63 billions in currency and checking accounts were credited to 85,000,000 individuals in the United States. These $181 billions present a constant target for high-pressure promoters, chiselers and frauds. This buying power, if protected and preserved, can assure the stability of business and promote prosperity for many years to come. IT MUST BE PROTECTED AND PRESERVED TO THE ULTIMATE BENEFIT OF ALL OF US.

"As experts in security analysis, it becomes our obligation and duty to weigh carefully the risk factor in relation to the position of the individual investor in all security transactions. Adequate insurance and sufficient reserves in cash and Savings Bonds should be an absolute prerequisite to acceptance of an order to purchase common stocks. A commission or trading profit made today is a detriment to our profession if it offers the risk of destroying the financial soundness of the client tomorrow.

"We believe, fully, that savings are of greatest value to our national economy when invested in legitimate and sound productive enterprise. Our savings are of such magnitude that there are today adequate funds available to finance all such enterprises without resorting to the cashing of Savings, War, or Victory Bonds. We will have sufficient opportunity to apply our talents to the intelligent investment of excess current incomes and uninvested surpluses without being a party to the cashing of bonds.

"For the future of our business and the high standing of our Association, ask yourself this question: IS THE PRICE OF THE SECURITY JUSTIFIED BY THE INDUSTRY, THE PAST, PRESENT AND FUTURE EARNINGS AND DIVIDENDS, AND CAN THE SPECIFIC CLIENT BEAR THE RISK?

"Members of our Association, from knowledge and experience, are better qualified to supply the answer than are the dozens of amateur, would-be advisors. It is our obligation as skilled members of an honorable profession to do so honestly, impartially and persistently."

Conrad Nongard With Cruttenden & Company

CHICAGO, ILL. — Conrad P. Nongard has become associated with Cruttenden & Co., 209 South La Salle Street, members of the New York and Chicago Stock Exchanges. Mr. Nongard was formerly an officer of Bennett, Spanier & Co. and A. A. Bennett & Co.

Donald J. Klein, who has recently been serving in the U. S. Army, has also been added to the firm's staff.

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*Recent circular on request

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Illinois Personnels

(Special to THE FINANCIAL CHRONICLE)

BLOOMINGTON, ILL.—**Michael K. Garst** has become affiliated with **L. B. Jackson & Co., Inc.**, Livingston Building. He has been serving in the U. S. Navy.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — **John W. Allyn** has rejoined the staff of **A. C. Allyn & Co., Inc.**, after serving in the armed forces.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — **Robert G. Frank** has become connected with **Brailsford & Co.**, 208 South La Salle Street. He has recently been serving in the U. S. Army.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**Anthony B. Hurtgen** is with **Enyart, Van Camp & Co., Inc.**, 100 West Monroe Street. He was formerly with Brailsford & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**Harlow N. Higinbotham** has rejoined **Hulburd, Warren & Chandler**, 208 South La Salle Street. He has recently been with the War Shipping Administration.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**Chas. Siebenmann** is with **Slayton & Co., Inc.**, 135 South La Salle Street.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**Lloyd H. Strausz** has rejoined **M. B. Vick & Co.**, 120 South La Salle Street, after serving in the U. S. Army.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**Fredric B. Welch** is with **F. S. Yantis & Co.**, 135 South La Salle Street. He was formerly in the U. S. Army.

(Special to THE FINANCIAL CHRONICLE)

ROCKFORD, ILL.—**Merle J. Barrows** has joined the staff of **S. A. Sandeen & Co.**, Talcott Building.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**Herman D. Brown**, formerly with First Securities Company of Chicago and Ryan, Nichols & Co., has become associated with **Paul H. Davis & Co.**, 10 South La Salle Street.

CHICAGO, ILL.—**John E. Watson** has become connected with **John A. Dawson**, 1 North La Salle Street. He was previously with the Central Republic Company.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**Charles E. Lundfelt, John W. Stewart** and **Robert K. Wallace** are with **C. J. Devine & Co., Inc.**, 135 South La Salle Street. Mr. Stewart is rejoining the firm after serving in the U. S. Navy. Mr. Wallace has also been in the Navy; prior thereto he was with Harris, Hall & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**Richard J. Leonard** has been added to the staff of **Harriman Ripley & Co., Inc.**, 135 South La Salle Street, after serving in the U. S. Navy.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**Carl Frank Brown, Jr.** is with **D. B. Peck & Co.**, 111 West Monroe Street.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**Herman W. Brann** is with **Zippin & Company, Inc.**, 208 South La Salle Street, after serving in the armed forces.

Henry Thielbar Joins Naess and Cummings

Henry B. Thielbar, having been released from active duty with the U. S. Naval Reserve, is now associated with Naess & Cummings, investment counselors of New York, Boston and Baltimore.

Mr. Thielbar before the war had for some years been engaged in the investment advisory field with Alex. Brown & Sons in Baltimore and as manager of the Trust Department of Sutherland, Tuttle & Brennan in Atlanta.

Estes, Snyder & Co. Now Is a Corporation

TOPEKA, KANS.—Estes, Snyder & Co., National Bank of Topeka Building, is now doing business as a corporation. Officers are Wayne J. Estes, President; Jack B. Snyder, Vice-President and Treasurer; William B. Pesell, Vice-President; Bernice McGregor, Secretary; and Robert C. Guthrie, Assistant Secretary.

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Real Estate Securities

HOTELS

It was in December, 1942, that we first recommended the purchase of Hotel Bonds in this column. Prices of the bonds recommended have continued to rise. Lately, however, the demand for this type of security has resulted in prices that have exceeded any expectation of ours.

The following comparison of prices during December, 1942, and at present is quite remarkable:

Hotel	1942	Current
*Governor Clinton	23	91
*Hotel Lexington	52	114
*Park Central	24	118
St. George	42	86
*Savoy Plaza	9	106
*Sherry Netherland	10	88
Waldorf Astoria	4½	79¾

*Carries stock representing equity.

We investigated the current buying of these securities and found that the buyers had evoked a new theory for their purchases. It is, namely, to ascertain the original cost of the hotel and if the bonds can be purchased at a price which discounts this cost, the purchase is made.

The theory is that existing hotels are in an extremely advantageous position to withstand any competition from new hotels because of higher construction costs.

Favorable economic factors of existing hotels are a prospect of refunding outstanding hotel bonds at a lower interest rate due to cheap money, high earnings and present reduction of debt by reorganization or sinking fund operation. Refunding of debt at low interest rates will provide additional funds for amortization and increase value of stock representing the equity.

Unfavorable economic factors are as follows: With current occupancy at its peak, the probabilities of increasing revenue of hotels are nil, while operating costs continue to rise. Post-war operating costs are rising because of the necessity of giving more adequate services to guests, expenditures for advertising and business promotion and large sums required to be spent to rehabilitate run down properties and to make up deferred repairs resulting from war-time conditions. Labor costs and cost of materials have also risen.

Current high earnings are because of capacity occupancy against normal occupancy of about 60%. As housing conditions becomes better, hotels will gradually be faced with a decrease in occupancy.

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General Instrum't Corp. Common Stock Offered

Public offering of 79,590 shares of ($1 par) common stock of General Instrument Corp. was made March 25 by a syndicate headed by Burr & Co., Inc., and including Hirsch & Stroud & Co., Inc.; Otis & Co. and Butcher & Sherrerd. The shares, which are being sold for the account of certain stockholders and therefore do not represent new financing, were priced at $19 each.

Outstanding common of the Corporation on Oct. 31, 1945, was 486,858 shares. The company's only other securities are two 2½% serial notes of $625,000 each, issued in connection with the purchase of the F. W. Sickles Co. of Chicopee, Mass., now operated as a wholly-owned subsidiary.

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REAL ESTATE EQUITY STOCKS

We suggest special consideration at this time of Real Estate Equity Stocks. Among those we believe to be particularly interesting are the following:

Brunswick Site Co. Com. — Hotels Statler Co. Com.
Commodore Hotel, Inc. Com. — N. Y. Hotel Statler Co. Com.
Hotel Lexington, Inc. Com. — Roosevelt Hotel NY Com.
Hotel Waldorf Astoria Corp. Com. — Savoy Plaza Class "A"
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Charles R. Gay Dead

Charles R. Gay, former President of the New York Stock Exchange, died at the age of seventy, after being in ill health for two years. Mr. Gay, in spite of his ill health had insisted on carrying on his manifold activities in religious, education and welfare work.

Charles R. Gay

He had been a member of the N.Y. Stock Exchange since 1911; he was elected President in 1935 serving for three terms and retiring in May 1938. Mr. Gay later became head of the firm of Winthrop, Whitehouse & Co.

Pike Resigns as SEC Commissioner

The resignation of Sumner T. Pike of Maine as a Commissioner of the Securities and Exchange Commission, tendered to President Truman in a four-line letter, was announced on March 21. In his letter Mr. Pike, it is stated, told the President:

"I am getting stale on this job, and it is time for me to quit."

According to Washington advices to the New York "Times" the President accepted the resignation, but refused to "accept the thesis which you put forward with such Yankee terseness."

The "Times" continued:

"On the contrary, Mr. Truman said that he could not believe that Mr. Pike was 'getting stale.' The Chief Executive felt that the 'public will be the loser' in Mr. Pike's decision to retire after six years' service.

"Mr. Pike, a successful financier, started as a clerk in a public utility corporation soon after he was graduated in 1913 from Bowdoin College, of which he is now an Overseer."

Mr. Pike, it is stated, was born 54 years ago in Lubec, Me., where he keeps his residence.

No Free London Exchange Dealings

By PAUL EINZIG

British Observer Points Out That Even Should the Terms of the Anglo-British Financial Agreement Be Carried Out, There Will Still Be a Restricted Exchange Market as Compared With Prewar Years. Foresees Breakup of Speculation and Private Dealings in Foreign Exchange, With Government Fixing the Rates and Requiring All Private Exchange Balances to Be Turned Over to Banks.

LONDON, ENG.—The Exchange Control Bill, foreshadowed by the Chancellor of the Exchequer in the course of his speech during the debate on the Washington Loan Agreement in December, is likely to be delayed for some months, and may not be introduced at all this session. Owing to the delay in the ratification of the loan by Congress, its adoption is not considered urgent. Meanwhile, banking circles are kept guessing about the scope of the Bill. All that is known for certain is that it aims at adapting the existing exchange restrictions to the requirements of the Bretton Woods and Washington Agreements and to the changed conditions in general. Even the Treasury has not yet made up its mind about some of its details.

Paul Einzig

One thing seems certain. The Exchange Control Bill will not provide for the restoration of free dealings in foreign exchanges in London, in the prewar sense of the term. Under the Bretton Woods Agreement it is the right and even the duty of the British Government to maintain restrictions on unauthorized international capital transfers. It is only for the purpose of current commercial payments and for the transfer of foreign balances that sterling must be made freely convertible within 12 months after the ratification of the loan.

But even for the above purposes, free convertibility does not mean free dealing. There is nothing in the Bretton Woods or Washington Agreements that would prevent the British Government from maintaining the existing methods of dealing, under which exchanges are bought and sold at fixed buying and selling rates. Under the new Bill those wanting to buy sterling for current commercial requirements or for the transfer of foreign balances will no longer have to apply for permit. Their bankers will sell them the amounts required. As before, exporters will have to

(Continued on page 1669)

Southern Pacific RR. Sells $25,000,000 Bonds To Kuhn, Loeb & Co.—Issue Reoffered at 98¾

An underwriting syndicate headed by Kuhn, Loeb & Co., was the successful bidder March 25 for a new issue of $25,000,000 Southern Pacific RR. first mortgage, Series G bonds, due Jan. 1, 1961, receiving the award on a bid of 98.319% for a 2¼% coupon. The bonds were immediately reoffered to the public at a price of 98¾ and accrued interest, subject to approval of the Interstate Commerce Commission. The sale attracted only one other syndicate bid. Halsey, Stuart & Co., Inc., and associates offered 98.309 for the same interest rate.

Proceeds from the sale of the new Series G bonds will be applied toward the redemption on or about June 13 next, at 101⅝, of $25,000,000 Series A 2⅞% bonds due Jan. 1, 1961.

The new Series G bonds are guaranteed unconditionally as to principal and interest by the Southern Pacific Co. In the opinion of counsel, they are or will be legal investments for savings banks in California, Illinois, Massachusetts, New Hampshire, New York, Ohio, Pennsylvania and Rhode Island, and for fiduciaries in New Jersey.

Consolidated net income of the Southern Pacific Transportation System for the year ended Dec. 31, 1945, amounted to $32,981,000, compared with $36,719,660 in 1944. Outstanding debt of the System, including bank loans and equipment obligations, on Feb. 28, 1946, amounted to $520,227,286. Interest charges for the year 1946 are estimated at $20,114,000, which, based on the 1945 income, would be earned 2.9 times.

Philip Dumbrille Is With Spencer Trask

Spencer Trask and Company 25 Broad Stret, New York City, members of the New York Stock Exchange, announce the association with their firm of Philip N. Dumbrille, of New York, Greenwich, Conn., and Brockville, Ontario. Mr. Dumbrille was educated at the University of Virginia and, before the war, was in the security business for several years, being last associated with Fellows Davis and Company. During the war he served as a captain with the United States Marine Corps. Mr. Dumbrille is a member of the Metropolitan, Union League, Metropolitan Opera and Canadian Clubs.

Ingraham Admit De Socio

Samuel T. De Socio has been admitted to partnership in L. H. Ingraham & Co., 72 Wall Street, New York City. Mr. De Socio has been associated with the firm for many years as cashier.

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SEE INSIDE BACK COVER

Ohio Municipal Comment

By J. AUSTIN WHITE

A growing number of bankers around Ohio, let heaven be praised, are finally coming around to buying municipals at yields under 1%. For years there has been a hard and fast rule with many banks that no municipals would be put in the portfolios at less than 1% yield. As a result of this rule, and the steady rise in the municipal market, these bankers have either quit buying municipals, have reached out into longer and longer maturities to get their "minimum" yield, or have dropped into lower and lower quality to get the yield.

J. Austin White

This situation prevailed to such an extent that even until a few months, nay, even a few weeks ago, a bond could be "given" away at a 1% yield, but just let the price on the same thing be 0.95% and it often stayed on the list for weeks. Finally, it now appears that this old bugaboo of a 1% yield has been routed. More and more bankers are seeing the wisdom of buying short maturities at yields slightly under 1% in preference to stretching out 15 or 20 years just to get that mythical 1%, or perhaps only slightly more.

The Ill Effects of Low Money Rates

There is a great deal of talk these days about the ill effects of low money rates. In fact, one often reads in the press today of concern being expressed about these ill effects, usually by the head of some insurance company, bank or other institution which must derive its income largely from investments. The complaints are to the effect that extremely low, and declining, money rates tend to cause investors to invest the funds entrusted to their care in the securities of lower and lower quality in order to secure more liberal returns.

From the complaints on this subject heard today one would be inclined to think that such a practice of buying lower and lower quality is something new, or perhaps even something that has not yet developed but will surely plague us if money rates decline further.

The truth of the matter is that practically all investors have already, for several years, been adding to their portfolios securities of lower and lower quality, and such a practice will not be started but will simply be continued if money rates decline further.

Lower Quality Comes Also With Confidence

However, the explanation for this buying of poorer quality is not merely that investors have been willing to sacrifice quality to obtain income in a period of low and declining yields. A part of the explanation is that investors are merely human, and it is only human that in times of prosperity the experiences of adversity are forgotten. In good times we forget bad times. To forget is human: to remember, divine. In the realm of municipal bonds, at least, the defaults and adversities of the '30s are forgotten in the prosperous '40s.

Another explanation of the willingness to invest in risks of poorer quality seems to be that confidence begets confidence. There is apparently a universal confidence

(Continued on page 1673)

Additional Members for Cincinnati Exchange

CINCINNATI, OHIO—Six additional brokerage firms have been elected to membership in the Cincinnati Stock Exchange. Included are: Edward Brockhaus, Edward Brockhaus & Co.; W. Power Clancey, W. P. Clancey & Co.; Gilbert A. Davis, Harrison & Co.; L. W. Hoefinghoff, L. W. Hoefinghoff & Co., Inc.; Lee R. Staib, Geo. Eustis & Co.; Joseph R. Work, Weiss, Work & Co.

Several other firms are considering filing applications.

These applications are the result of a program of the Exchange to increase its usefulness to all brokers and dealers in securities in the vicinity and increases Exchange membershihp to twenty-seven persons representing twenty-three of the outstanding securities firms in the city.

Other firms, who are members of the Exchange, are:

J. L. Barth Co., Benj. D. Bartlett & Co., Otto Baum & Co., H. B. Cohle & Co., Dominick & Dominick, W. E. Fox & Co., A. & J. Frank Co., W. D. Gradison & Co., Hill & Co., W. E. Hutton & Co., Don D. Kuemmerling, A. Lepper & Co., Merrill Lynch, Pierce, Fenner & Beane, C. H. Reiter & Co., S. F. Stephenson, The Weil, Roth & Irving Co. and Westheimer and Co.

Many months have been spent by Exchange officials working out changes in Exchange Rules making membership attractive to brokers and dealers in the various types of securities business in the city.

The addition of the new members is expected to be of mutual advantage to the brokers and to the Exchange and in the opinion of Exchange officials should make Cincinnati listed securities more attractive to the public by the resulting increase in marketability.

Present trustees and officers of the Exchange are:

J. B. Reynolds, Benj. D. Bartlett & Co., Chairman of the Board; C. H. Steffens, President; L. J. Nussloch, W. E. Fox & Co., Vice-President; A. W. Korte, C. H. Reiter & Co., Treasurer; M. W. Lepper, A. Lepper & Co.; H. B. Cohle, H. B. Cohle & Co.

Cleveland Transit Tax Decision Limited

Ruling of C. Emery Glander, Ohio Tax Administrator, that municipally owned public utilities are not subject to taxation, clarifies considerably an uncertainty which has existed in the minds of city officials throughout Ohio since the Ohio Supreme Court ruling in the Cleveland transit system case. Glander held that electric light, gas, heating and water plants owned by municipalities and their product sold to citizens or consumed by the municipality in its government operation was tax free. Glander held that all property owned by a city or village and used in the operation of any type of railroad system was taxable.

Glander's ruling may not end the matter for his decision in subject to a court appeal.

Foster Bros., Young Co. to Admit John P. Lins

TOLEDO, OHIO—John P. Lins will acquire the New York Stock Exchange membership of Oscar R. Foster and as of April 4th will be admitted to partnership in Foster Bros., Young & Co., 410 Madison Avenue.

Ford Steele Wins AIB Public Speaking Test

CLEVELAND, OHIO—The annual public speaking contest of Cleveland chapter, American Institute of Banking, was won by Ford Steele of Central National Bank of Cleveland and will represent the local chapter at the semi-final contest in Fort Wayne, Ind., in May.

R. Ross Ellis of National City Bank was second and Dorothy Drukenbrod of the Fourth Federal Reserve Bank was third. They also will make the Fort Wayne trip. The national contest will be held in Cincinnati the first week in June. First prize in the finals is $500 and second is worth $250.

Cunningham Co. Now Incorporated; Officers

CLEVELAND, OHIO—Russell I. Cunningham of the Cleveland securities firm of Cunningham & Co., Union Commerce Building, announced he and associates have formed a corporation, effective next Monday.

Mr. Cunningham, former President of the Cleveland Stock Exchange, has been elected President of the new company which will continue under the same name.

Raymond M. Baird and Edward A. Stanton have been elected Vice-Presidents, the latter to be the company's representative in Plainesville, east of Cleveland. Jack M. Mandaville is the Secretary.

Mr. Cunningham was head of the Cleveland exchange for three years, from 1939 to 1941, inclusive.

Lewis Whitney Now With Butler Huff Co.

LOS ANGELES, CALIF.—Lewis J. Whitney, Jr., is with Butler-Huff & Co. of California, 210 West Seventh Street. In the past he was an officer of Huff, Geyer & Hecht, Inc.

Ohio Municipal Price Index

Date—	*	†	‡	§
Mar. 20, 1946	1.13%	1.26%	.99%	.27%
Mar. 13	1.15	1.29	1.01	.28
Mar. 6	1.16	1.30	1.02	.28
Feb. 27	1.16	1.30	1.02	.28
Feb. 20	1.16	1.30	1.02	.28
Jan. 16	1.24	1.39	1.09	.30
Dec. 19, 1945	1.29	1.45	1.13	.32
Nov. 14	1.32	1.50	1.15	.35
Oct. 17	1.36	1.54	1.18	.36
Sep. 19	1.38	1.58	1.18	.40
Aug. 17	1.40	1.62	1.17	.45
July 18	1.22	1.42	1.02	.40
June 13	1.21	1.39	1.02	.37
May 16	1.19	1.35	1.02	.33
Apr. 18	1.19	1.34	1.03	.31
Mar. 14	1.27	1.43	1.11	.32
Feb. 14	1.30	1.47	1.14	.33
Jan. 17	1.33	1.49	1.17	.32
Jan. 1, 1945	1.34	1.50	1.18	.32
Jan. 1, 1944	1.41	1.58	1.23	.35
Jan. 1, 1943	1.83	2.01	1.65	.36
Jan. 1, 1942	1.92	2.13	1.70	.43
Jan. 1, 1941	1.88	2.14	1.62	.52
Jan. 1, 1940	2.30	2.58	2.01	.57
Jan. 1, 1939	2.78	3.33	2.24	1.09
Jan. 1, 1938	2.98	3.42	2.55	.87

*Composite index for 20 bonds. †10 lower grade bonds. ‡10 higher grade bonds §Spread between high grade and lower grade bonds.

Foregoing data compiled by J. A. Whit & Co., Cincinnati.

Ohio Brevities

President John W. Davin of New York, Chicago & St. Louis RR. (Nickel Plate), announced that the road expects to have ready for competitive bidding about April 16 a new offering of $41,500,000 of 40-year bonds.

The road said it was offering the new bonds to take advantage of the continuing downward trend in interest rates, to refund the outstanding $41,796,000 of 3¾% refunding mortgage bonds, due Jan. 1, 1975, which were sold Dec. 19, 1944, to an underwriting group headed by Halsey, Stuart & Co. of Chicago, at a price and interest rate averaging an annual interest cost of 3.73%. The 3¾s, Davin said, will be retired July 1 at 105½ and accrued interest. The road's treasury will contribute the balance needed to retire the bonds.

The new financing will be the fourth under the debt simplification program started by NKP's directors in September, 1944, and reduces the non-equipment debt to $99,500,000. At the end of 1936, this figure stood at $151,662,000. Annual interest charges, NKP stated, have been cut to $3,800,000 from $7,500,000 at the end of 1936 and stands to be trimmed further with the new proposed financing.

* * *

Otis & Co. of Cleveland, reported early this week it had formed an account to bid for proposed new offering of stock by Indianapolis Power & Light Co. of Indianapolis, Ind.

Otis opened a fight for the new issues late last week when it was learned the Indiana utility was planning to turn over the offering to a group of 80 leading bond houses without competitive bidding.

The Cleveland firm then sent a telegram to Indianapolis Power & Light in which it said "if competitive bidding is utilized in the award, with provision made for sealed proposals to be opened in the presence of the bidders and for award of the underwriting to the bidder offering the terms most advantageous to you, Otis & Co. and associates are prepared to submit a proposal to you on a date to be mutually agreed upon by the company and the prospective bidders."

It was then reported over the week-end that the City of Indianapolis had asked the utility to consider competitive bidding and a telegram from Power & Light to Otis stated it believed the directors would ask for bids on the proposed issues—120,000 shares of 4% preferred stock and 142,967 common shares, totaling approximately $15,000,000.

The company plans to give the present preferred holders the opportunity to exchange their stock for the new preferred and that common holders first be offered the new common.

* * *

Two million common shares of Central States Electric Co. has been bought by Otis & Co. from interests associated with Harrison Williams, the Cleveland firm announced.

The announcement added that one-third of the shares was for a group associated with Chairman Robert R. Young and President Allan P. Kirby of Alleghany Corp.; one-third for the account of Pitston Co., an Alleghany subsidiary, and one-third for interests associated with Otis & Co.

* * *

William S. Jack of Cleveland, and B. C. Milner Jr. of New York, head the new company of Jack & Heintz Precision Industries, Inc., formed early in the month by the merger of Cleveland's famed war plant, Jack & Heintz, Inc., and Precision Products Corp., recently incorporated.

Jack took over as Chairman of the board in charge of all production and was succeeded as President by Milner, Precision Products Chairman and President of several other industrial concerns.

Another Jack & Heintz officer, Ralph H. Heintz, Vice-President and Secretary, was named Vice-President of the new concern to head all engineering.

At the time of the merger, Jack stated "we expect our plants to be rolling 100% at the close of the year."

Besides Milner, other new directors of the merged company are Harold C. Richards, a director of Midland Steel Products Corp., Cleveland, Manufacturers Trust Co. and Murray Corp.; Byron C. Foy, a director of Chrysler Corp., Electric Auto-Lite and National Dairy Products; T. Seward Harris, industrialist in New England, and Edward R. Legg, formerly with Nash-Kelvinator Corp.

"Holdup tactics" of a group of

(Continued on page 1669)

Underwriters and Distributors of Municipal and Corporate Securities

OTIS & CO.
(Incorporated)
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Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week—Insurance Stocks

Two weeks ago this column presented 1945 vs. 1944 operating results for 16 representative stock fire insurance companies, compiled from Best's Bulletins as prepared from the filed convention statements of the companies. This week similar tabulations are shown for 16 additional companies, together with revised figures for Insurance Co. of North America. All figures are on a parent company basis.

	1944				1945			
	Net Und.	Net Inv. Inc.	Fed. Taxes	Total Net Oper.	Net Und.	Net Inv. Inc.	Fed. Taxes	Total Net Oper.
	$	$	$	$	$	$	$	$
American Equitable	—2.88	1.97	---	—0.91	—2.73	1.75	---	—0.98
Boston	0.44	3.13	0.15	3.42	—0.09	3.12	0.03	3.00
Continental	0.84	2.41	0.44	2.81	1.26	2.49	0.71	3.04
Fidelity-Phenix	0.77	2.70	0.35	3.12	0.94	2.74	0.53	3.15
Franklin	—0.54	1.35	0.20	0.61	0.40	1.40	0.35	1.45
Glen Falls	1.69	1.49	0.28	2.90	1.25	1.91	0.35	2.81
Globe & Republic	—1.71	1.12	---	—0.59	—1.79	0.98	---	—0.81
Hanover	0.28	1.59	0.10	1.77	—0.58	1.61	0.26	0.77
Hartford	2.29	3.54	0.78	5.05	3.84	3.72	1.25	6.31
Home	0.25	1.44	0.17	1.52	1.41	1.47	0.64	2.24
*Ins. Co. of N. A.	2.06	4.32	1.00	5.38	1.37	3.72	0.59	4.50
National Fire	—2.67	2.33	Cr0.01	—0.33	—1.20	2.41	---	1.21
New Hampshire	—0.43	2.22	Cr0.07	1.86	—1.31	2.28	Cr0.07	1.04
Prov. Washington	0.96	1.87	0.18	2.65	1.34	1.80	0.49	2.65
St. Paul F. & M.	1.92	2.88	—0.48	4.32	1.90	2.97	0.91	3.96
Security	—0.70	1.68	0.06	0.92	—0.04	1.69	0.01	1.64
Springfield F. & M.	—1.35	5.72	0.01	4.36	—1.63	5.78	---	4.15

*1,200,000 shares in 1944; 1,500,000 shares in 1945.

It will be observed that American Equitable and Globe & Republic each report net operating losses in 1945. as also in 1944. National Fire, however, reports a net operating profit in 1945 against a loss in 1944.

Continental, Fidelity - Phenix, Franklin, Hartford, Home and Security, show improved earnings in 1945 compared with 1944, while Boston, Glen Falls, Hanover, New Hampshire, St. Paul and Springfield report lowered earnings. Net operating earnings for Prvidence Washington amounted to $2.65 each year. With regard to Insurance of North America, the drop in earnings per share is occasioned by the increased capitalization from $12,000,000 to $15,000,000; aggregate net earnings for the company were $6,769,000 in 1945 compared with $6,454,000 in 1944.

Most companies show moderate betterment in net investment income, while Franklin, Home, Hartford and Providence-Washington show striking improvement in net underwriting results. Companies which show underwriting losses in 1945 are: American Equitable, Boston, Globe & Republic, Hanover, National Fire, New Hampshire, Security and Springfield.

Fire Losses: Thus far in 1946 fire losses have been heavy. As reported by the National Board of Fire Underwriters, January and February estimated losses for 1946, compared with previous years, are shown below.

Losses for the 12 months of 1945 amounted to $455,239,000 compared with $423,538,000 in 1944, an increase of $31,701,000 or 7.5%. Despite this, many stock fire insurance companies showed better underwriting results in 1945 than in the previous year. Thus, heavy fire losses in any one year do not necessarily imply lower underwriting profits or underwriting losses. Relative fire losses year by year must be weighed against the net premium income, which may be expanding sufficiently to cushion some of the shock of a high volume of losses. Thus, despite the 7.5% increase in losses during 1945 over 1944, 16 of the 32 companies shown in this week's table and the table of two weeks ago, reported an improvement in 1945 underwriting results. Furthermore, Best's Bulletin Service reports that the annual statements of 242 stock fire insurance companies, which underwrite approximately 95% of the total fire and marine business, showed a rise of **less than one point** in their 1945 loss ratio of 57.9%, and a fractional decline in expense ratio to 41.2%, bringing their combined loss and expense ratio to 99.1%. Their aggregate net premium income expanded 8% over 1944.

	1946	1945	1944
January	$49,308,000	$44,865,000	$36,572,000
February	51,759,000	41,457,000	38,280,000
Total, 2 months	$101,567,000	$86,322,000	$74,852,000

Despite this favorable showing, fire insurance stocks should be selected this year with great care, in view of the continuation of heavy fire losses. The figures presented this week and two weeks ago may serve as a guide in pointing to those companies whose underwriting experience during the war years warrants the assumption that they will again do comparatively well in 1946.

BANK and INSURANCE STOCKS

Laird, Bissell & Meeds
Members New York Stock Exchange
120 BROADWAY, NEW YORK 5, N. Y.
Telephone: BArclay 7-3500
Bell Teletype—NY 1-1248-49
(L. A. Gibbs, Manager Trading Department)

PRIMARY MARKETS IN BANK and INSURANCE STOCKS

GEYER & CO.
INCORPORATED

BOSTON 9 — 10 Post Office Square — HUBBARD 0650 — BS-297
NEW YORK 5 — 67 Wall Street — WHITEHALL 3-0782 — NY 1-2875
CHICAGO 4 — 231 S. LaSalle Street — FRANKLIN 7535 — CG-105

PRIVATE WIRE SYSTEM CONNECTING: NEW YORK, BOSTON, CHICAGO, PHILADELPHIA, ST. LOUIS, LOS ANGELES
HARTFORD, Enterprise 6011 PORTLAND, Enterprise 7008
PROVIDENCE, Enterprise 7008

Replacing Resigned Securities Commissioners

(Continued from page 1631)

we nevertheless feel that the appointment of political hacks is to be sedulously avoided.

It will be asked, how about appointing men who are already employed by the SEC—moving them up, so to speak.

We oppose this because these men will have been indoctrinated with the existing ideology of the Commission, implying, among other things, regimentation of the securities industry, control of profit, the prying questionnaire technique, disregard of trade custom and usage, and hair-splitting interpretations requiring an elbow-lawyer in every securities house.

The Commission's repeated reaching out for powers not embraced within the Securities Act has received our steady criticism.

We have contended that, using its rule-making power as a guise, the SEC has in effect usurped certain legislative functions which the Congress never intended to delegate to it, and which, even if the Legislature intended that there be a delegation of such power, the law-making body was powerless to assign.

In our opinion the new Commissioners should have a basic knowledge of the securities business gained through actual experience.

Before appointment, their qualifications should be efficiently probed and publicized.

Although the Commission administers a number of laws, including the Investment Advisers Act and the Holding Company Act, it is in the Trading and Exchange Division that repeated weakness has been shown.

The Commission needs the vibrant energy of men who understand trading from all of its viewpoints, over-the-counter as well as on the exchanges.

It needs men who have spent many years in the activities of underwriting, buying and selling.

Not only must the point of view of the general public be understood but those of the dealer and the broker must also be encompassed.

Above all, a sound knowledge of the customs and usages of the trade must constitute the basic background of their experience in the securities business.

There are such men and their services are sorely needed.

The addition of brass hat bureaucrats must be avoided.

The opportunity is now afforded to place in key positions two men of sympathetic understanding who will see to it that the unnecessarily restrictive shackles which now hamstring those in the investment field are removed.

Dealers, brokers and underwriters should forthwith communicate with their Congressmen to the end that proper appointees be recommended.

Temporary Quarters for World Fund and Bank

Fund Will Be Housed in Hotel Washington in National Capital and Bank Will Be Quartered in State Department. Executive Directors to Meet in May. System of Compensation of Directors and Governors.

WASHINGTON, March 27.—Temporary Washington headquarters for the World Fund will be in the Hotel Washington, just across the street from the United States Treasury, commencing the latter part of this week. The mezzanine rooms engaged for the purpose include a room adequate for the initial meetings of the executive directors in May. In addition the hotel will set aside approximately thirty bed rooms for those executive directors and alternates desiring them. Travel, hotel and other necessary expenses will all be taken care of by the Fund, as is provided in the by-laws adopted at Savannah. In addition, executive directors in both Fund and Bank are to be paid $17,000 per annum net after national taxes, provided they work the full year; and the alternate executive directors will receive $11.500 net.

The World Bank's temporary headquarters are in the State Department.

In May only the executive directors and alternates of Fund and Bank are required to meet in Washington. The next meetings of the boards of governors of the two institutions are not scheduled until September. Governors and alternate governors under the Bretton Woods Agreements are not to be paid for their services by the Fund and Bank, but rather by their respective governments. However, according to a decision reached at Savannah, they are to get from Fund and Bank their actual travel expenses plus fifty dollars a day, with a slight deduction whenever accommodation is supplied by the transportation company.

The fifty dollars a day in many cases will add up to a sizable amount and comes very close to constituting compensation. It is paid for the period beginning with the individual's departure from his home and ending with his return there. If, as has occurred, he cannot obtain space on a return plane, train or boat as soon as he wants it, all he has to do is wait,—at $50 a day. It is estimated that the bills of some of the delegates to Savannah will come to several thousand dollars, depending on how lucky they are in getting off on the home journey.

Halsey, Stuart Heads Syndicate Offering Hackensack Water 2⅝s

Halsey, Stuart & Co., Inc., heads an underwriting group that is offering today (March 28) $15,000,000 Hackensack Water Co. first mortgage bonds, 2⅝% series due 1976 at 105% and accrued interest. The bankers won the award March 26 on their bid of 104.42%. The proceeds, together with other funds of the company and the proceeds of short-term borrowing, if required, will be applied toward the redemption on or about June 10, 1946, of its outstanding $14,350,000 first mortgage bonds, series A, 3½% due Oct. 1, 1968 at 107½% and accrued interest.

The 2⅝% bonds are redeemable at prices ranging from 109⅜% to par, plus accrued interest to the redemption date. The bonds also are redeemable under certain conditions as set forth in the mortgage at prices ranging from 106% to par, plus accrued interest to the redemption date.

Capitalization of the company, after the present financing, will consist of $15,000,000 first mortgage bonds, 2⅝% series due 1976 and 307,500 shares of common stock ($25 par value).

Toppell Back From Extended Business Trip

Jack Toppell, Director of Research for Luckhurst & Co., 40 Exchange Place, New York City, has just returned from a circuit of western New York, Ohio and Michigan. He said yesterday that the top officials of every industrial company he visited were highly optimistic about the general business picture. He pointed out that although the consensus of opinion was one of criticism of current OPA pricing policies, it was felt that the basic economic forces will reassert themselves and allow the average industrial firm a normal operating profit margin.

Australia and New Zealand

BANK OF NEW SOUTH WALES
(ESTABLISHED 1817)

Paid-Up Capital	£8,780,000
Reserve Fund	6,150,000
Reserve Liability of Prop.	8,780,000
	£23,710,000
Aggregate Assets 30th Sept., 1945	£223,163,622

THOMAS BAKER HEFFER, General Manager
Head Office: George Street, SYDNEY
LONDON OFFICES:
29 Threadneedle Street, E. C. 2
47 Berkeley Square, W. 1
Agency arrangements with Banks throughout the U. S. A.

NATIONAL BANK of INDIA, LIMITED

Bankers to the Government in Kenya Colony and Uganda
Head Office: 26, Bishopsgate, London, E. C.
Branches in India, Burma, Ceylon, Kenya Colony and Aden and Zanzibar

Subscribed Capital	£4,000,000
Paid-Up Capital	£2,000,000
Reserve Fund	£2,200,000

The Bank conducts every description of banking and exchange business
Trusteeships and Executorships also undertaken

What's New at Metropolitan?

THERE is much good news for policyholders in the 1945 record of the Metropolitan Life Insurance Company.

Payments to policyholders and their beneficiaries reached a new all-time high of $623,000,000.

Mortality among policyholders, excluding war deaths, was the lowest on record. The yield on the Company's investments followed the general trend and declined somewhat. The Company had asset gains which made it possible to revise policy and annuity reserves so as to reflect lower interest earnings. Scales of dividends to policyholders were maintained, and in some cases slightly increased.

Unassigned surplus funds at the year end amounted to $448,600,000. In addition the Company had special surplus funds of $109,400,000, of which $95,100,000 represented a special reserve for possible loss or fluctuation in the value of investments and $14,300,000 a Group Insurance reserve for epidemics, etc. These funds represent an extra cushion of safety for policyholders.

In its report to policyholders for 1945, Metropolitan provides answers to many of the questions a policyholder would be likely to ask if he could make a personal visit to the Company. Among questions answered, for example, are...

Were there many extra claim payments last year due to the war?

Would longer life for policyholders reduce the cost of Life Insurance?

In what types of investments did the Company put its money?

What does the Company advise about National Service Life Insurance?

In addition to answering these and many other questions, the report gives a financial summary of the Company's operations during 1945. Whether or not you are a policyholder, you will find this report interesting and informative. To get a copy, just write and ask for the Company's annual report entitled, "What's New at Metropolitan?"

BUSINESS REPORT FOR 1945

In accordance with the Annual Statement as of December 31, 1945, filed with the New York State Insurance Department.

OBLIGATIONS TO POLICYHOLDERS, BENEFICIARIES, AND OTHERS		ASSETS WHICH ASSURE FULFILLMENT OF OBLIGATIONS		
Policy Reserves Required by Law. This amount, together with future premiums and interest, is required to assure payment of all future policy benefits.	$6,400,802,374.47	**National Government Securities** United States and Canadian.		$3,901,918,692.03
		Other Bonds		1,729,338,186.57
		Provincial, State, and Municipal	$ 92,780,754.21	
		Railroad	584,361,368.30	
		Public Utilities	656,189,313.94	
		Industrial and Miscellaneous	396,006,750.12	
		Stocks. All but $4,076,225.49 are Preferred or Guaranteed.		114,550,034.03
Policy Proceeds and Dividends Held at Interest. These are funds left with the Company to be paid in the future.	342,073,866.83			
		First Mortgage Loans on Real Estate		870,363,554.77
		Farms	$ 86,606,570.02	
		Other Property	783,756,984.75	
Reserved for Dividends to Policyholders Set aside for payment in 1946 to those policyholders eligible to receive them.	123,338,706.00	**Loans on Policies** Made to policyholders on the security of their policies.		343,512,038.44
Other Policy Obligations. Claims in process of settlement, estimated claims not yet reported, premiums received in advance, etc.	67,108,358.06	**Real Estate Owned** Includes $39,300,334.74 real estate under contract of sale and $147,436,299.08 Housing Projects and real estate for Company use.		259,557,120.46
Taxes Accrued Includes estimated amount of taxes payable in 1946 on the business of 1945.	20,019,592.00	**Cash** Deposited in banks, in transit, or on hand.		175,687,154.11
Contingency Reserve for Mortgage Loans.	21,000,000.00	**Other Assets** Premiums due and deferred, interest and rents due and accrued, etc.		167,070,489.96
Miscellaneous Liabilities	29,587,557.57			
TOTAL OBLIGATIONS	$7,003,930,454.93	*TOTAL ASSETS TO MEET OBLIGATIONS*		$7,561,997,270.37

Thus, Assets exceed Obligations by $558,066,815.44. This safety fund, representing about 8% of the obligations, serves as a cushion against possible unfavorable experience and gives extra assurance that all policy benefits will be paid in full as they fall due. This fund is made up of:

A Special Surplus Fund (including $95,112,000.00 for possible loss or fluctuation in the value of investments)	$109,422,000.00
Unassigned Funds (Surplus)	448,644,815.44

NOTE:—Assets carried at $360,747,351.78 in the above statement are deposited with various public officials under requirements of law or regulatory authority. Canadian business embraced in this statement is reported on basis of par of exchange.

HIGHLIGHTS OF 1945 OPERATIONS

Life Insurance in Force, End of 1945 . . . $31,261,969,817 **Paid-for Life Insurance Issued During 1945** . . . $2,143,423,150

Amount Paid to Policyholders During 1945 . . . $623,443,185.86

Metropolitan Life Insurance Company

(A MUTUAL COMPANY)

Frederick H. Ecker, CHAIRMAN OF THE BOARD *Leroy A. Lincoln*, PRESIDENT 1 MADISON AVENUE, NEW YORK 10, N.Y.

Railroad Securities

The common stock of Atchison, Topeka & Santa Fe has been attracting a large volume of investment buying recently and as a result has been giving a better market performance than railroad securities as a whole. Atchison has long been considered among the prime credits in the rail field, a confidence certainly justified by its record of profitable operations in every year since its organization somewhat more than 50 years ago. To this inherent strength has been added the very substantial progress, both physical and financial, made by the management during the war years.

Despite the basic strength of the road's debt structure the management has not been content to rest on its laurels. Rather, it has engaged in an aggressive debt retirement program which compares favorably with the accomplishments of many of the railroads which prewar were strictly marginal in character or even on the verge of bankruptcy. Non-equipment debt has been cut nearly a third in the past few years to the present level of $203,155,500 represented entirely by non-callable 4% bonds maturing in 1995. The cut in charges was somewhat wider inasmuch as most of the debt retired carried coupons of more than 4%. There are also outstanding $27,420,000 of equipment obligations.

The total funded debt now outstanding amounts to only $230,575,500. In comparison the road has spent $221,419,000 on additions and betterments to property and equipment in the period 1940-1945, inclusive. A large part of this money was spent on new equipment, including a substantial number of road freight diesel locomotives, which were paid for with cash rather than financed. There are few, if any, major carriers in the country that can point to an aggregate debt only moderately higher than gross capital expenditures on the property during the war years. Moreover, these capital expenditures were superimposed on liberal maintenance outlays over a long period of years.

Despite the utilization of large sums of cash for debt retirement and property improvements and additions, the road has achieved a very strong financial status. As of the end of last year net working capital amounted to $108,339,000, equivalent to almost 50% of the total funded debt, including equipments. It is interesting to note that year-end net working capital plus the 1940-1945 additions and betterments (a total of $329,758,000) would cover 93% of capital obligations senior to the common stock. The total of senior capital obligations as of the end of 1945 amounted to $354,748,300, including $124,172,800 of 5% non-callable preferred.

Obviously if the additions and betterments of recent years have had any economic justification the common stock has been advanced to a very strong earnings position. Actually, many of the improvements, particularly dieselization of mountainous sections, reduction of grades and curves, and installation of heavy rail on main lines, should bring very substantial savings in operating costs. If it is assumed that the company will earn a return of 15% on gross capital expenditures made since the beginning of 1940, which appears conservative, and allowing for the reduction in fixed charges, there has been an increase in potential earning power of the Atchison common of more than $9.50 a share in recent years. This is after allowing for a Federal income tax rate of 38%.

In recent years dividends have been paid at the rate of $6.00 a share. Considering the company's strong finances and the fact that none of the remaining debt nor the preferred stock can be called, many rail men look for an increase in this rate in the course of time. Eliminating the extraordinary item of amortization and adjusting to the present Federal income tax rate, pro-forma earnings on the stock last year would have been close to $40.00. Certainly they should not drop below $15.00-$18.00 even in 1946 which will be a generally poor railroad year.

Charles Ivey Forming Own Firm in Norfolk

NORFOLK, VA. — Charles L. Ivey is forming C. L. Ivey & Co., with offices at 201 East Plume Street, to engage in the investment business. Mr. Ivey was formerly a partner in Virginia Securities Company.

Prospects for the Railroad Equipment Industry

Domestic and Export Potential for Cars and Locomotives Huge

Railroad equipment shares have done little more than follow the market during 1945 and so far in 1946. Certain underlying factors lead to the conclusion that once industrial activity takes a firm upward turn, the railroad equipments will better the averages.

There is no question but that deferred demand both here and abroad for locomotives and freight and passenger cars is enormous. The market for such equipment is estimated both by railroad men and those in the industry to be sufficiently large to keep the manufacturers busy for five years.

It is not necessary to quote many figures on present rolling stock and replacements over the past 15 years to show that cars in service are for the most part obsolete and generally in a worn, inefficient condition. Riders in passenger cars during the war years know the shape they are in and mere observation of freight cars indicates their poor plight. Freight cars, however, have been replaced at a more rapid rate than have passenger cars—none of the latter were manufactured in either 1943 or 1944.

Demand for passenger cars is estimated to be between 10,000 and 15,000, plus 3,500 Pullmans, about half the number of Pullmans now in service. Between 1932 and the end of 1943, only 2,511 passenger cars were installed by Class I roads compared with 13,782 retired, according to the American Association of Railroads. This means that only 18% of the passenger cars retired were replaced. There were 49,353 passenger cars in service in 1932 and only 37,940 in 1943. Between 1931 and 1940, the railroads installed, on the average, 0.5% in terms of passenger cars on hand, compared with a replacement rate of 4.5% in the 1921-1930 period.

Anticipated requirements through 1950 for freight cars from Class I roads total 70,000 units. While replacement of freight cars has proceeded at a faster clip than passenger cars, orders for 70,000 would be sizable relative to the level of recent purchases. As of Feb. 1, 1946, 38,000 freight cars were on order from Class I roads. Between 1932 and the end of 1943, these roads installed 404,249 cars (an average of 33,700 yearly) and retired 889,181 (an average of 74,000 yearly), so that installations were equivalent to only 45% of retirements. The result at the end of 1943 was that 18% fewer cars were in service than in 1932; capacity also was substantially less. In the decade prior to 1940, annual replacements of 2% in terms of cars on hand was less than half of the 4.6% replacement rate of the 1921-1930 period.

Although approximately 1,000 new locomotives were built during the war, 50% of those on hand even now are over 25 years old. The builders estimate that over 1,200 locomotives annually will be required over the next six years. Both in terms of tractive power and units on hand, the railroads own less than in 1925. In that year locomotives owned by Class I roads totaled 64,357 units with total tractive power of 2,596 million pounds. For 1945 the figures are 39,221 and 2,093 million, reductions of 39% and 19%, respectively.

Since only a handful of roads were able to avoid at best the brink of bankruptcy during the 1931-1940 era it is not surprising that rolling stock deteriorated to a serious extent. The further burden placed on this already obsolescent equipment by war necessities hastened its deterioration. Now, the financial condition of the railroads is excellent and they are anxious and ready to spend cash for new equipment. While the total working capital of Class I roads at the end of 1930 was $120 million, the 1945 year-end figure was $2.1 billion. Funded debt, too, improved substantially, down to about $8.5 billion from $10.7 billion in 1930.

Export potential for cars and locomotives over the next few years is huge. Freight car needs may reach 300,000 with the longer term total pointing substantially higher. Foreign requirements for locomotives even now are approximately 10,000 and this figure could double in the coming five years. Immediate prospects are led by Russia and include France, Belgium, Holland and Turkey.

Traditionally, the railroads await definite signals of uptrending industrial activity before making long-term commitments for rolling stock. Consequently, the large orders have not yet been forthcoming, although present activity at builders' plants is

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Investigate Before You Invest—In Hotel Securities

(Continued from page 1635)

and is going higher because of price ceilings, on the one hand, and increased operating costs on the other. For example, Government figures show that hotel payrolls are up 68% over 1939.

Occupancy Tells the Story

One has only to trace the occupancy records of hotels to see what unwise overbuilding did. From a high of 85% in 1920, hotel occupancy droped to 70% by 1924. Even in the era of prosperity —from 1925 through 1928—it did not exceed 70%. In the depression year 1932, occupancy hit an all-time low of 51%. In spite of all this, in each year from 1927 through 1930, an average of $140 millions was invested in new hotels.

In those days, hotel construction was loaded with extra charges, bond discounts, high coupon second, even third mortgages. Too many investors believed they were putting their dollars into a building rather than a business—a business whose earnings feel reactions from the mildest fluctuations of general economic conditions; a business with large capital investment and comparatively small annual sales; a business with high fixed capital charges.

Annual hotel sales are relatively small when projected against capital investment. Estimates say that it takes hotels from three to five years to turn over their capital. The hotel debacle taught investors that sufficient earnings must be derived from relatively small sales to pay interest on funded debt, taxes and depreciation.

Other Industries Had Similar Problems

A parallel to this large capital investment, small sales turnover, can found in several heavy industries. For example, the electric power industry, valued at $12 billions, has average annual sales of $1.75 billions, or a 15% turnover. Railroads, having a valuation of $25.6 billions, have a 13% turnover. In fact, the rail industry's experience somewhat parallels that of hotels. 31% of the total U. S. railroad mileage was in the hands of receivers and trustees by 1939. Like hotels, they were unable to earn enough to meet fixed capital charges. Unlike the electric power industry, however, hotels can not depend on steady year-in- year-out business volume.

Over-Emphasized Borrowed Money

During the hotel building boom, from 1920 to 1932, promoters and builders put entirely too much emphasis on mortgage money and not enough on risk capital. It is conservatively estimated that three-quarters of the funds used to purchase real estate and build hotels were raised on loans of one type or another.

In larger cities, something like this often happened: the land for a new hotel was purchased at, say, $25,000, and was put into the deal at $100.000. Then a bond issue was floated for, say, $750,000 face value of 6% bonds, sold to a security house at 90, and thus producing $675,000. From the proceeds, $100,000 went to the owner of the land and an excessive profit was paid to the builder. Thus, when the new hotel opened its doors, it had to earn $45,000 annual interest on $750,000, although the actual investment was under $600,000.

In many smaller cities, the community-financed hotel became the vogue. Local citizens or outside promoters decided that the city needed a grand new hotel. The arguments were so impassioned that anyone who resisted them was considered as totally lacking in civic pride. Enthusiasm was stirred up and then came a series of deals. The land often was purchased at an unreasonably high profit to the owner. Local contractors were awarded jobs at over-fat figures. In many instances, a local architect was over-paid for *his* contribution. And when the building was completed, the business was entrusted to an inexperienced hotel manager.

A Hotel Should Be Evaluated As A Business

One of the reasons for the fiasco was that the public usually considered a new hotel as an investment in real estate. Many hotel builders did not charge depreciation against operations, reasoning that it would be more than offset by land appreciation. Instead, real estate values droped, and hotels were sold for a fraction of the original cost. Chicago's Stevens Hotel is a typical example. It cost $28 millions to build in 1927. By 1930, bonds on this, the largest hotel in the world, were offered for a few cents on the dollar. Recently, Hilton Hotels of America purchased the Stevens for $7½ millions.

Furthermore, in too many instances, builders did not select the management of a new hotel until it was ready for business. Consequently, if an experienced manager was hired, he was forced to do the best he could with an operation in which he had no hand in the planning.

The result of the hotel building boom was that even conservative institutional lenders found themselves in the hotel business, whether they liked it or not. At one time, a large insurance company owned 138 hotels.

Certainly banks have learned *their* lesson. In fact, they learned it in 1927, because by that time institutional lenders had largely withdrawn from financing hotel projects. Unfortunately, this indication that hotel construction was no longer considered a sound investment did not discourage building. Increased numbers of bond issues for sale to the general public soon filled the gap left by the more conservative institutional lenders.

Public Issues Defaulted

Of course, these publicly distributed bond issues became increasingly risky. The proportion of equity to borrowed money decreased so that in some instances it represented but a small part of the total capitalization.

The proof of this is recorded in yellowing newspaper files. A New York daily, on Oct. 31, 1930, carried an impressive advertisement. Placed by a then-prominent real estate mortgage company, the advertisement caught the inventor's eye with this headline:

THE ISLAND OF MANHATTAN

An Impressive Record of Sound Lending

It then went on to say, among other things, that: "A survey of our lending operations will show why we consider bonds secured by Manhattan properties the soundest real estate mortgages in the world."

Of the 188 listings issued, 22 were on hotels. Of this 22, 19 defaulted—six within one year of the advertisement's appearance; eight within two years; two within three years; and the remaining three were supported by realty interests until 1938, 1939, and 1940, when they, too, defaulted.

When we understand just what happened, it is easy to see why, in the era of recovery—1936 through 1940—hotel occupancy reached as high as 66% in *only one year*. In addition to the occupancy figures, the sluggish recovery of hotel business was reflected in the prices of hotel securities. For comparison, Dow-Jones averages reveal that industrials in 1940 showed a 175% increase over 1932; rails made a 1907% per cent gain; but hotel securities, according to a reliable authority, showed only 103% increase in 1940 over 1932.

The figures reveal that the business upsurge caused by war in Europe, as well as our own lend-lease and defense programs, was not felt by the hotel industry until 1942, when this country was actually at war. Therefore, it is only logical to assume that when conditions return to normal there will, in most cases, be ample hotel accommodations, even if future travel materially exceeds pre-war peaks.

Four Points for Evaluating A New Hotel

With the true facts in proper perspective, it is my opinion that investors and financial instiutions should adhere to these four points if a poor hotel investment is to be avoided:

1. An independent survey should should be made to ascertain the soundness of the project;
2. Plans and specifications should be prepared and supervised by an experienced hotel architect who knows how to build economically;
3. The best available operating management should be retained for guidance through every step of the planning, financing, building, and on through the management of the business;
4. The property should be realistically financed and precautions taken to be sure that no water seeps into the financing.

This warning would be somewhat ill-advised if the hotel industry was not geared to rehabilitate existing properties thoroughly and to offer future guests top-notch services and accommodations. However, the American Hotel Association recently completed a comprehensive survey which discloses that some 13,000 hotels will, as promptly as possible, spend almost $1½ billion for modernization, expansion, and rehabilitation. In short, the industry will offer the finest facilities in the history of the hotel business as soon as materials become available.

Robert Krieger Joins Reinholdt & Gardner

Robert E. Kreiger has become associated with the New York office of Reinholdt & Gardner, 14 Wall Street, as manager of the municipal bond department. Mr. Kreiger was formerly trading manager for Charles H. Drew & Co.

Rieley Heads Bldg. Price Division of OPA

Gordon Rieley, Vice-President of Bryant Heater Company of Cleveland, Ohio, has been appointed director of the newly established building and construction price division of the Office of Price Administration, and is on leave of absence to assume his new duties immediately, it is announced by Lyle C. Harvey, President of the Company.

at a very satisfactory level. A clarification of the whole industrial outlook, however, will undoubtedly witness a flood of orders.

All the equipment builders stand to benefit and war built expansion in most plants will be useful during this period. The declining importance of company shops in the passenger car field will aid American Car & Foundry, Budd and Pullman, which companies handle most of this business. But to relatively small earnings during 1936-1939, the base years for computing excess profits taxes, the equipment producers were in the high tax brackets during the base years. The accompanying table indicates latest earnings, dividends, prices and ranges, together with latest earnings adjusted to the present 38% combined Federal income and surtax.

	Current Price	Earned Per Share 1944	Adjusted to 38% Tax Rate	1945 Dividend	1937-1945 Price Range
American Brake Shoe	52	2.77	3.77	1.65	81-23
American Locomotive	36½	4.58	12.05	1.65	59-6
American Steel Foundries	42¼	*5.25	6.20	2.00	73-16
Baldwin Locomotive	32⅛	3.81	10.15	1.50	37-5
Budd Manufacturing	22	0.73	2.84	0.25	25-2
General American Transportation	63½	3.05	7.15	2.50	86-29
Lima Locomotive	73	*5.68	17.30	2.50	88-13
New York Air Brake	56	*2.28	3.81	2.00	99-20
Pullman	60½	3.99	8.27	3.00	72-17

*1945 earnings.

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March 26, 1946

Mutual Funds

The Sober Facts

We frequently become so engrossed in the daily routine of our respective jobs that it is easy to lose sight of the long-term factors which affect us. For example, here are some of the sober facts which are going to have a direct and predominant bearing on the future of the investment company business in this country:

1. Our total money supply—bank deposits and money in circulation—now amounts to approximately $185 billion. This compares with a total of about $55 billion in the boom year 1929.
2. Today our money supply rests largely on Government debt. It has been created largely through the sale of Government bonds to the banks. It does not rest on loans which can be called or mortgages which can be foreclosed. In a a very real and practical sense, it is a permanent supply. In terms of its purchasing power it represents the greatest volume of investable funds the world has ever seen.
3. Our huge money supply is more widely distributed — is owned by more people—than ever before in our history.

What do these facts add up to for those of us who are engaged in the investment company business? Simply this—the need for sound, well-managed investment companies is greater than ever before. The economic "area" requiring the type of services which mutual funds perform has broadened in volume and scope far beyond even the most visionary dreams of their sponsors only a few short years ago. Today all the mutual funds together have less than $1½ billion of assets to manage. Obviously the surface has hardly been scratched.

* * * *

"Fundamentals of Sound Investment"

Keystone Co.'s current issue of Keynotes analyzes the investment account of Harvard University as of June 30, 1945. Of the $163,000,000 book value in the Harvard Fund, 50.42% was invested in bonds; 11.06% in preferred stocks; 34.37% in common stocks and 2.31% in real estate and mortgages. Only 1.84% was held in cash.

The University follows a policy of wide diversification. There were 177 corporate bonds in the portfolio, 94 preferred stocks and 180 common stocks, with the largest single holding representing less than 3% of the total.

As Keystone Co. points out, in every investment program regardless of size, first, is the need for diversification among classes of securities and individual issues; second, is the need for competent investment research in the selection of securities, and third, is the need for constant supervision by professional investment analysts.

Wage-Price Policy

National Securities & Research Corp. devotes the current issue of Investment Timing to a discussion of "The Inadequacy of the Administration's Wage-Price Policy." Feature by feature this policy is analyzed and the conclusion is reached that it is not a new policy but an adaptation of the old. Its principal favorable feature is recognition of the inevitability of price increases but under OPA's present attitude it is likely that many of the price increases granted will prove inadequate. While it is expected that Congress will extend the OPA beyond June 30, "time is the factor in the pricing problem which should see considerable relief over the next few months."

Railroad Stocks

"Good Value in Selected Railroad Stocks," is the title of a new folder by **Distributors Group.** It reveals that selected railroad stocks today offer:

1. More than twice the earnings per dollar that the same stocks offered in a past period of prosperity.
2. More than twice the earnings per dollar that a representative list of industrial stocks offers today.
3. Estimated future earnings for about a third of the price presently afforded by the industrial stocks in the Dow-Jones Average.

Securities—Plus Management

Selected Investments Co., in the current issue of Selections points out that when you purchase the shares of an investment company "you buy management as well as securities."

At present, the management of **Selected American Shares** believes we are probably in a transition period from one phase to another in a broad, long-term bull market. It believes some of the stocks it has held are no longer particularly attractive and that other stocks are becoming more attractive than was previously recognized.

Under a management policy which utilizes bonds and preferred stocks, when a period of unsettlement or change is believed to lie ahead. Selected now has buying power in the form of highest grade bonds. If another favorable opportunity to buy as in late February should develop, these bonds may be traded into stocks which the management believes to be attractive.

Investors Mutual

Net assets of **Investors Mutual** as of March 15, 1946, were $83,418,567 with shares currently owned by more than 40,000 shareholders.

Continuing to follow a "middle of the road" investment policy, the Fund's portfolio of securities as of March 15 showed: 16.3% invested in bonds; 31.3% in preferred stocks, and 52.4% in common stocks. In addition the company held uninvested cash in the amount of $6,586,422. Net asset value per share on March 15 was $13.885.

Union Bond Fund A

In a current memorandum on **Union Bond Fund A,** the sponsor, **Lord Abbett,** presents a chart comparing the market action of this Fund with that of the Dow-Jones Industrials during the February break. Whereas the general stock market was off approximately 10% during this decline, UBA actually showed a slight increase in asset value per share and, on the day the Dow-Jones Industrials declined $8.50, the decline in UBA amounts to only one cent per share. Thus, states the sponsor, is UBA fulfilling the objective for which it was created: "A broadly diversified portfolio of good grade bonds selected for relative stability and a reasonable return."

Broad Street and National

The investment management for these two funds is provided by the Union Service Corp. and in current letters the performance of each fund for the past several years is shown.

In the case of **National Investors,** total appreciation in net asset value per share from the beginning of 1942 through the end of 1945 amounted to 178.3% as compared with a gain of 74.2% in the Dow-Jones Industrial Average.

Broad Street, whose management has been in the hands of Union Service Corp. over a longer period shows an increase in asset value per share between Jan. 1, 1930, and Dec. 31, 1945, from $28.54 to $41.27. During the same period the Dow-Jones Industrial Average showed a net decline from 248.48 to 192.91, or 23.5%.

Investing Your Backlog

A new folder on **Fully Administered Shares** was published last week by **Distributors Group.** It reveals that in the recent setback, as in the preceding year of advance, Fully Administered Shares has continued to outperform the Averages.

Growth of Specialty Funds

A memorandum from **National Securities & Research Corp.** presents in chart form the growth figures of specialty funds recently published by the National Association of Investment Companies. Total net assets of such funds on Dec. 31, 1940, amounted to $50,883,000. As of Dec. 31, 1945, total net assets of these funds had increased to $359,316,000 — a growth of over 600% during the last five years.

Massachusetts Investors Second Fund

In the 53rd Quarterly Report of this Fund, net assets as of Feb. 28, 1946, are shown at $15,005,599—equivalent to $15.66 per share.

Mutual Fund Literature

Lord, Abbett—Current issue of Abstracts discussing the first quarter dividend on **Affiliated Fund.** . . . **Selected Investments Co.**—Current issue of "These Things Seemed Important." . . . **Keystone Co.**—Revised issue of the folder "10 Securities" with figures as of Jan. 1, 1946.

Dividends

Affiliated Fund, Inc.—A regular quarterly dividend of 3c per share payable April 20, 1946, to stock of record April 10.

Investors Mutual, Inc. — A quarterly dividend of 8c a share payable April 20, 1946, to shareholders of record March 31.

Massachusetts Investors Trust—A quarterly dividend of 22c per share payable April 20, 1946, to shareholders of record March 29.

Institutional Securities, Ltd.—A semi-annual cash distribution of 50c per share on Aviation Group Shares payable May 31, 1946 to stock of record April 30.

C. R. Palmer Public Gov. of N. Y. Exchange

Emil Schram, President of the New York Stock Exchange, announced the election of C. Robert Palmer, President of Cluett, Peabody & Co., Inc., as a Public Governor of the Exchange. He succeeds Robert V. Fleming, President and Chairman of the board of the Riggs National Bank of Washington, D. C., who resigned after serving from Feb. 13, 1942.

Mr. Palmer is a native of Iowa and was educated in that State, having attended Upper Iowa University. He joined Cluett, Peabody & Co., Inc. in Troy, New York, in 1908 as a salesman and advanced by steady promotion to the Presidency in 1929. He is a director of the Manufacturers Trust Company of New York. He lives at 12 Plateau Circle, Bronxville. His office is at 10 East 40th Street.

The Constitution of the Exchange provides for two Public Governors. The other Public Governor is John Quincy Adams of Chicago, who has been a member of the Board since Feb. 13, 1942.

NYSE Reports on Non-Member Customers' Margin Accounts

The New York Stock Exchange in a notice to the Clearing Member Firms of the Exchange on March 18 stated that "in view of recent changes in margin regulations tending to decrease the number of shares bought and sold for non-member customers' margin accounts, clearing member firms no longer will be required to report these items on Form 120." The announcement made by Acting Secretary Korn, added:

"Beginning with the trade date of Monday, March 11, and until further notice, reports on Form 120 will be confined to information relative to all round-lot sales and, reported separately, short sales of stocks made on the Exchange, settled or cleared by you."

The Clearing Member Firms were asked to inform correspondent firms for whom they carry omnibus accounts of this change in the Exchange's reporting program.

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Statistical Miasma and Administrative Blunders

(Continued from page 1634)

capital. The Brookings Institution in Washington, the Bureau of Economic Research in New York, and the defunct "Temporary National Economic Committee" of Congress have made investigations along these lines. But very little in the way of theoretical or practical results have been accomplished from these studies. The definite sources of capital formation have not yet been established. The character of capital formation is still unverified. The rate of capital formation is still undetermined, and such conclusions as have been drawn are largely a matter of guesswork or deductions from "metaphysical" and crazy-quilt sources.

As an example, we are told in a monograph entitled "Savings, Investment and National Income," by Oscar L. Altman, published by the Temporary National Economic Committee, that in the United States from 1923 to 1929, individuals' savings flowing into savings institutions, with the flow of savings through demand deposits and through investment trusts, trustees and foundations, averaged from $5 to $6 billion per year. During the same years business enterprise invested in addition an average annual amount of $6.4 billion from funds accumulated from internal sources, i. e., retained earnings, plus allowances for depreciation and depletion. These two figures indicate an average annual amount of savings of about $12 billion, or about 16% of the average annual national income for this period of seven years. Likewise, for the decade from 1929 to 1938, inclusive, we are told by Simon Kuzets, an economist of the National Bureau of Economic Research, that the average annual net capital formation constituted only 3% of the national income, the lowest percentage in any previous period.

Now, it is quite evident that to obtain adequate and accurate data to arrive at these far-reaching estimates is extremely difficult and perplexing. Even with the elaborate statistics of earnings, savings, investment and other economic phenomena which may now be available, the problem is still beyond human calculation. No single investigator or corps of investigators are capable of doing the work. Since the nature of earnings, the constitution of savings, and the publicity or registration of actual savings and investments have not yet been firmly conceived or established in economic science, there is still no adequate basis for their calculation. They are as yet unmeasurable phenomena, conceived in the minds of men, but having no fixed physical form or composition. Who knows when an individual makes an investment? When does wealth actually become capital? What is the basis or the method of calculating income? These questions have never been satisfactorily answered, and one should not be accused of statistical or economic agnosticism, if he calls attention to these matters.

The nature of capital itself is still very much in doubt, despite the fact that it is defined and even fully explained in every textbook on economics. The most renowned of living American economists, Prof. Irving Fisher, four decades ago wrote an elaborate philosophical and mathematical treatise on the subject, entitled "The Nature of Capital and Income," but he does not conclusively furnish a definite or universally accepted concept of these economic terms. He defines "Capital," briefly as "*a stock of wealth* existing at an instant of time" and "income," he says is "a flow of service through a period of time." He illustrates these definitions by explaining that "a dwelling house is capital" and "the shelter it affords is income." Yet, if the concept of capital is wealth dedicated to the production of further wealth, a house may not be capital, and if its use furnishes no monetary returns, according to the common accounting concept, it is not considered as income. Certainly, neither the house nor the enjoyment thereof, would appear in the tabulations of capital investment or earnings used by present day statisticians in their calculations of the totals which private research organizations and the various Government bureaus are almost continuously serving as statistical diet to the public.

The confusion of the concept of capital must be cleared up, before the elaborate computations of its amount and its growth can be relied upon as accurate data on which to base administrative policy, or as an indication of economic or industrial trends. The British economist, Massau W. Senior, who was highly respected in his day, though he seems to have preferred social advancement to scientific economics, wrote rather pessimistically a half-century ago that "Capital has been so variously defined it may be doubtful whether it has any generally received meaning." Since Senior's time, hundreds, and perhaps even thousands of economists have expounded on the nature of capital without coming to a generally accepted meaning. In fact, some prominent writers, such as the German Roscher, and the famous English economist, Alfred Marshal, have revised the definition of capital in successive editions of their textbooks.

Discretion in Use of Statistics

If this is the situation, should there not be more discreetness in the preparation and use of statements made regarding percentages of capital formation and capital growth. These items are given in definite figures with dollar signs, as if they appeared in books of account or were tabulated from exact records. It is expected that they are to be used as *prima facie* evidence. Yet, without going into a technical argument regarding the inadequacy and inaccurracy of data, they are to a considerable extent, mere statistical exercises. Any reliance upon them as a guide to economic trends or as a guage of economic phenomena may lead to serious mistakes.

With respect to capital formation and capital growth, the collators of statistical data generally neglect a fundamental concept. This concept is that capital is not so much a physical phenomenon, measured in terms of the dollar sign, as the use that is made of it. It is not surprising therefore that some economists, notably Henry Dunning McLeod, argued that credit constitutes capital, and a nation's total capital consists of not only its material wealth used in production but also existing indebtedness. More than a half-century before McLeod wrote his voluminous analysis of credit David Ricardo was asked by a Parliamentary investigating committee whether he regarded credit as a form of capital. To this query, Ricardo replied: "Credit is a means which is alternately transferred from one to another, to make use of capital actually existing: it does not create capital; it determines only by whom that capital is to be employed."

By using the word "employed" Ricardo placed a limitation of the capital concept. Because capital is wealth that is productively employed, its use and employment is even more important to human welfare than its mere existence, and if credit (as it actually does) intensifies and improves capital use, credit in this sense, may be said to be the same as an addition to both capital and purchasing power. It is for this reason that investment and savings must be distinguished, and Lord Keynes may be right in holding that a proper relationship between saving and investment is so essential to a stable and prosperous economy.

Consideration of Quality as Well as Quantity Essential

Yet, if varying volume of credit has the same effect on prosperity as capital accumulation, its *quality* as well as its quantity must be considered if any statistical analysis is to be infallible. Misdirected and unproductive credit is as useless so far as human welfare is concerned as wealth not employed as capital

But has the statistician or analyst any means of measuring the quality of credit? The quality control of credit is the most difficult of all economic controls. Because of its importance, it has been undertaken in this and other industrial nations However, not with a great deal of success. Great Britain is about to launch a new and permanent scheme of bureaucratic credit control, but, as I pointed out in the "Chronicle," in the issue of Feb. 14, it is faced not only with difficulties but is likely to be perverted from economic to political objectives, and ultimately fail in its purpose.

Hansen-Terborgh Controversy

Today, there is a bitter controversy raging between two schools of thought regarding the accumulation of capital and its productive use. One school, represented by Prof. Alvin Hansen, of Harvard University, holds that because the nation is reaching a "mature economy," is not accumulating more capital and has no new frontiers, the main incentive for investment and other forms of credit expansion, as well as capital growth, is removed, and this explains the depression that occurred in the prewar years. The opposite school of thought has as its chief protagonist, Dr. George Terborgh, author of "The Bogey of Economic Maturity." The arguments of the two economists are summarized in the current issue of the Harvard "Review of Economic Statistics" by Prof. David McCord Wright as follows:

"Hansen: Decline in population growth removes an important outlet for investment and helps explain the stagnation of the Thirties.

"Terborgh: Percentage decline in growth rates began 70 years ago; why does it trouble us only now? Also, a greater proportion of old people means increased consumption.

"Hansen: The frontier has disappeared.

"Terborgh: That happened 50 years ago; there may be a new foreign trade frontier.

"Hansen: Great new industries don't seem to be in prospect and those we have tend to be capital saving.

"Terborgh: The capital saving idea is incorrect; great new industries have 'only' absorbed about 16%, on average, of gross capital formation and are unpredictable.

"Hansen: Internal funds are becoming more important for financing; expansion is possible through replacement funds alone.

"Terborgh: At the beginning of economic maturity, replacement is in excess of provision for capital consumption; corporations are largely self-financing only in good times; there still remains uncorporate enterprise.

"Hansen: Once past the post-war boom, ex ante savings probably will exceed offsets.

"Terborgh: Possible savings is exaggerated by general averages; offsets are unpredictable; they would increase if we gave capitalism a chance."

Professor Hansen, as is quite widely known, advocates artificial stimulants to expansion of capital growth, and was a leading inciter to the New Deal policies. He was until recently an economic advisor to the Federal Reserve Board. In line with Lord Keynes' theories, he would increase government spending to offset the stagnation arising from impeded capital accumulation and in this way combat the effects of business depression. In his view, the automatic forces making for investment outlets have declined since World War I and this has led to the nation attempting to maintain its prosperity by investing half of its saving abroad—a policy, which, he holds, is not easy or appropriate for this country to follow. He therefore proposes new internal developments like the Tennessee Valley and Missouri Valley authorities and similar projects to find new outlets for investment and expansion.

Now it is obvious, if we had adequate and accurate data, or if such data could be obtained, there would be little ground for this controversy. At least, both parties could agree as to the facts, which they do not. The growth of physical assets and tne flow of investment—and what is more important, the productiveness of capital—are still to a large degree unascertainable phenomena.

This essay is written not with a view to discouraging statistical research in economics. Such research is laudable and may be worth the time and expense required by it. It is merely a protest against making calculations on the basis of incomplete and, in many cases, inaccurate and erroneous data and using the data as a basis of administrative policy and economic controls. The economic statistician or analyst has not the same exact and ascertained material to work with as the physicist. He cannot isolate his data and remove qualitative and disturbing differences in his units of measurement. Yet, this is attempted today on a large scale and on the basis of these attempts, we are asked to rely on the results presented and shape our policies accordingly.

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Canadian Securities

By BRUCE WILLIAMS

It is an immutable fact that unless whatever is spent is earned the economy as a whole must suffer. The "Alberta Bill of Rights Act" makes a plausible attempt to offer something for nothing but it will have tragic consequences for the Province of Alberta if ever it is implemented. Apart from the impossibility of estimating the total assets of the Province what will be the attitude of the producers and would-be producers? What incentive will there be to create wealth if it is to be gratuitously dissipated to provide a dole for all and sundry within the Province?

One unpleasing feature of this situation is the complacency with which this fantastic proposition has been received. The potential objectors to the scheme have been lulled into a sense of false security by the insidious delayed action policy of the social credit zealots. The party has been in power so long without exhibition of its real intent that its menace has been dismissed with an attitude of somewhat amused contempt.

Another attitude adopted is that Premier Manning has insincerely introduced the bill with the conviction that his plan will never be put into practice. If this is so and political pressure is such that he is obliged to take such a strong stand to placate his extremist followers, the inherent dangers of the situation are all the greater.

The Social Credit party has given the Province good government over a period of years and has thereby gained sufficient prestige to sway the moderate elements in the Province. There is little doubt that the provincial courts, and certainly the Federal Government, will bar any tampering with the currency, but thwarted from directly attaining the main objectives, the party fanatics will be encouraged to employ indirect methods to reach their goal.

It is to be hoped therefore that the initial round will not be complacently conceded with the idea that the scheme will be ultimately defeated. The poor credit standing of Alberta during the past decade has been detrimental to the progress of the whole of Western Canada. Today when the finances of the province, largely through outside assistance, have been placed on a sound footing, the prospects for the proper development of this area of tremendous virgin resources are jeopardized by political recklessness.

Foreign capital, impressed by the apparent increasingly conservative outlook of the Social Credit party over the past few years, has been encouraged to enter the Province, notably for the development of promising oil deposits. Without such outside assistance the tremendous natural wealth of Alberta will never be fully exploited. It is only necessary to regard the housing situation in Alberta during the last decade to realize that political influences have been a deterrent even to local capital.

Happily Canada is a virile young country and her people are noted for their sound commonsense. The people who linked the Atlantic with the Pacific by the vast Canadian Pacific Railroad system when the population was a mere 3½ millions — whose thinly spread prairie farmers have contributed such a disproportionate share in feeding the world — whose few hardy pioneers have wrested from the inhospitable wilderness of the Laurentian shield its vast riches of mine and forest—such people do not accept lightly socialistic doctrines when the reward for endeavor is so high.

During the past week the high grade externals held firm but activity was at a very low ebb. Albertas again receded slightly on a considerably reduced turnover and Saskatchewans were inclined to ease in sympathy. The internal section was also quiet and prices were a shade off their recent peak level. Free funds were firm at 9⅛%, and were largely influenced by security operations.

With regard to future prospects little change is to be foreseen in the high grade section but the recent reaction in Albertas and Saskatchewans is likely to continue.

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Financial Facts and Fancies

(Continued from first page)

the banks buy Government bonds on the basis of a market which they have made by their previous buying of Government bonds.

With that as a starter, I have some general observations. You know that in 1929 that process of bank lending developed a money supply in this country of $55 billions. You know that the process of treasury sales of Government bonds to the banks during the last few years, of bank buying of Government bonds on the market, and of bank buying of other bonds have produced a money supply in this country today of about $185 billions.

That at once raises the question, have we too much money, and then, of course, the question, how much money is enough?

Is There Too Much Money?

Now, I know that even in this distinguished group of experts, if we speak individually, nobody ever has too much money, but I am not asking the question from the individual's point of view—that is, the individual's immediate point of view—but rather from his interest in the public welfare. How much money is enough from the point of view of the public welfare? I think you experts would probably use different phraseology. You would probably make a very polite talk on the quantity theory of money.

I am not and I do not pretend to be an expert in this field. As I have often said, an expert is an ordinary guy, far away from home, and I never get very far away from home.

I realize it is dangerous going into a group of this kind on a subject which is confusing to the point of bewilderment, and I mean, the subject of money. My thesis is that with $185 billions of money, we have too much money from many points of view. That $185 billions is made up of about $28 billions of money in circulation, and the balance of more than $155 billions of bank deposits, various kinds of bank deposits, but all of them subject to draft by somebody at some time, either immediate or within a short space of time.

That increase in the amount of the country's money supply since 1929 from $55 billions to $185 billions ought to answer most of the questions with which we investors have had to deal in the intervening years.

Who would not have known that bond yields were going down and prices going up when there was the constant increase in the amount of money available in the community and, demanding among other things, opportunities for investment.

You can look back now and, I think agree that you could have paid a higher price for most any one of those issues in last few years for which Halsey, Stuart & Co. paid what we then thought was too much, and held on to them for a few months, as Halsey Stuart did, if you could afford it, and you would within a few months have sold those securities at a still higher price because in those intervening months the money supply was mounting higher and higher, and more and more of it seeking something for investment.

It is arithmetic, not statistics, that has been involved. The only trouble was that it was hard for all of us to see very far ahead, and we knew that the facts would depend upon some other factors like politics, and we were not too sure that the process would continue as it was then developing.

Source of Surplus Money

How did we get all of this money? I think it is pretty generally agreed now that we got it through the Treasury selling too many of its bonds to the banks. and every time it sold its bonds to the banks the bank deposits of the country and the resulting money supply was increased by the par value of the bonds sold. We also got some of it after the Treasury ceased to sell directly to the banks,—which was much later, by the way, than the general public thinks,—through the banks going out on the market and buying Government bonds, which increased bank deposits and the money supply just the same as if the banks had bought the bonds directly from the Treasury.

And then with the accumulated funds which flowed into the banks as the result of this increase in money, the banks sought more and other opportunities for investment and for earnings, and they bought either directly from corporate issuers or on the market corporate bonds, which likewise increased bank deposits and the money supply.

I hope we all understand, as Governor Eccles suggested the other day that we ought to understand, that the use of bank reserves to buy Government bonds, corporate bonds or almost any other damned thing, results in an increase in bank deposits and in what we call the money supply.

I wonder sometimes whether those of you who are connected with banks enjoy the opportunity and the responsibility of consulting with your superior officers at the moment when they are considering transactions, loans or the purchase of securities on the market which have this effect of increasing bank deposits and money supply. I wonder sometimes whether any considerable percentage of bank administrators themselves understand what Mr. Eccles said he thought the people of the country ought better to understand when the bankers make loans or decide to buy bonds on the market. They certainly have to take into consideration to some extent the effect on their liquidity and solvency as bankers have always done on such occasions, though I suspect they do not have to take quite so much concern about the effect on their liquidity since the banking legislation of the early New Deal days, which makes any old cat or dog in a bank portfolio eligible for the Federal Reserve, but they must give some concern to liquidity and to solvency.

Situation of the Banks

Do they also or should they give some concern to the question whether these loans they are making or these securities they are buying will go on increasing the money supply to the point where maybe it will not be so good for the public welfare, including the banks who have made the contribution to this increase in our money supply? In 1928 and 1929, when the banks were making huge loans, demand loans, street loans, they had to give consideration to their liquidity as affected by those loans, but did they also give consideration to the possible effect of the mounting increases in bank deposits and money supply? When the effect of that huge increase to $55 billions at that time came along, the banks suffered as did everybody else. Will the banks suffer as will everybody else when the effect comes along of this excessive, as

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Canada to Cancel Debt Owed by Britain

Canada plans to cancel the debt of $425,000,000 incurred by the United Kingdom under the Commonwealth Air Training Program, according to the March 22 business summary of the Bank of Montreal. It is stated that a supplementary agreement, covering unsettled claims arising from the war efforts of the two nations, provides that the United Kingdom will pay the Dominion $150,000,000 and will cancel all its claims against Canada outstanding as of Feb. 28, the bank reports. The Dominion of Canada will reciprocate by cancelling all of the outstanding claims against the United Kingdom not otherwise dealt with, including the cost of food and other supplies delivered to Britain between V-J Day and the end of February.

By recently granting a credit of $1,250,000,000, the bank points out, Canada brings the total of her financial aid to the United Kingdom to more than $5,000,000,000. Included in this are the outright gift of $1,000,000,000 made in 1942 and approximately $2,000,000,000 given in the form of mutual aid since that time.

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I view it, increase in our money supply?

It is not yet ended. You know that the Government is not now selling bonds but bank deposits are going up, and it is because the banks are buying on the market either Government bonds or corporate bonds. Only the other day a big industrial corporation, bypassing the investment bankers as they sometimes do these days, coming to the life insurance companies directly, sought a 15 or 18-year loan, and we made them the best terms that we thought we could possibly justify, but they shook their heads and said, "No. The banks will make us the loan for 10 years at 1¾."

That was too rich for us. Why it was not too rich for the banks, we do not yet know. But, when the officers of that company said to us, "There isn't any hurry about it. We can let the matter ride." We said, "Oh, no, we advise you to go get that money quickly. This money that we offer you is experienced money. It has been around. It has been in the business world. It will stick. But this money you are going to get from the banks is newly created money. It is coming right out of chaos, invited into this world by the banks. It has had no experience. It has not been around. You don't know what may happen. Of course, it is all the same kind of money after it gets here. But just suppose somebody closes the gate from chaos before you get that new money."

Well, the gate is still wide open, but I am only emphasizing the fact that the new money is still being created by the banks. If you have any doubt about the reason for booms in real estate or even baby booms as yet on the stock market, and low interest yields on bonds, well, you just take it from me, the answer is that huge supply of money being constantly called out of chaos by banking operations.

Patriotism and Prudence

I do not mean to be critical of the bankers. They certainly had to finance the Treasury's operations during the war, and the most important source of all this supply of money is, of course, the Federal deficit. If more money had been raised by taxation, there would not have been such a big money supply at the end of the war. If more of the money borrowed had been secured from those who had pre - existing money, that is, the people and their savings institutions, there would not have been so big a supply of money at the end of the war.

I know it was patriotic to support the Government's issues, but all through the war on many occasions when I had the honor and the responsibility of advising with Treasury officials, I took the position that it was just as patriotic to insist that the war be financed soundly as it was to help finance it. You know that a comparatively small percentage of the funds existing in the community were used for financing the Treasury's needs during the war, and a very large volume came from the banks, and the expansion of bank credit and of the money supply resulted.

You know that there are at least two large blocks of Government bonds outstanding that were bought and sold under the impression that money was being put into them during the war to be used promptly after the war, either to buy things that were not available during the war in the case of individuals, or to finance business expansion immediately after the war in case of corporations. You know that there are at least $50 billions of those two holdings that are going to come on the market at some time in the near future, and when they are financed, who is going to provide the funds? Is that going to result in a further expansion of bank credit, of bank deposits and of money supply?

You know, too, that while many of the big corporations have pretty well supplied themselves with liquid funds for the immediate postwar period, there are a lot of small businesses that are not so supplied. There will be a lot of new businesses, too, that will want bank funds, and those very proper provisions of bank funds for small businesses and new businesses must still further increase bank deposits and the money supply.

Danger of Further Money Increase

So, the question is not merely how are we going to reduce what I choose to call an excessive money supply, but how are we going to prevent it growing much larger? Again I ask, how much money is enough? How much money do you want? I mean for the use of the community. Do you want the whole national wealth to be turned into liquid form? That is, do you want as much money as there is national wealth? Do you want as much money as there is debt, government, corporate, and private, or do you want only as much money as there is government debt?

Mr. Eccles said the other day that the monetizing of the debt should stop. I think he had in mind the monetizing of the Federal debt. Now, as I have said to you, that is just another of these poetic or technical phrases to describe the very simple transaction of putting debt in the banks, whereupon the amount of the debt is added to the money supply. That is what I have at last come to realize is the meaning of monetizing the debt.

If we monetize more and more of the Federal debt, we all agree that we flood the country with more and more money. What is to prevent the banks going on the market and buying up all the Federal debt and monetizing it, and having monetized the Federal debt, perhaps they will go on the market and buy up all the corporate bonds and monetize that debt, too, and then why not go on the market and buy all the mortgage debt and monetize that, also, and liquify everything in the form of wealth?

German Monetary Experience After World War I

Some of you analysts, I think, would enjoy what I was not able to do to my own satisfaction; that is, go back into the German bank reports and periodicals of 1919 and 1920. The first job I ever had for the Equitable was in 1920, a big innocent just out of the academic world, when I went to Europe for the Equitable and was in Berlin in July of 1920. Nobody else wanted the job. It was a blind alley. Every vice-president of the Equitable that had ever gone into the foreign business had gone off the dock in some way or other. So nobody wanted the job, and they wished it on me. It turned out to be the best job in the Equitable, and that is why I am here.

I remember very well walking into the offices of the German bankers in July of 1920. They were rubbing their hands and smacking their lips over their huge increases in bank deposits. In 1921, they were pointing their fingers to their still further increased bank deposits, but they were not rubbing their hands, and they were not smacking their lips, and in 1922, of course, you know everything blew loose.

Responsibility of Banks

Some of you must be familiar with that atmosphere in the English language and the American banks, with similar increases in bank deposits looked upon with a certain amount of pride and enthusiasm.

"What are we going to do with the money," a Philadelphia banker said to me the other day. "We must have earnings."

"Well," I said, "I have some banking responsibilities myself and I like to see the banks have earnings, but I do not like to see the banks have earnings at the expense of the soundness of the currency of this country for which they are primarily responsible."

Who is going to take care of the soundness of our currency if the bankers do not? You cannot expect the politicians to do it. You cannot expect the people themselves to say, "We have too much money and we want to get this money supply down." And you cannot expect their public representatives to do it, at least, not until the bankers provide the leadership and point out the necessity from the point of view of the public welfare of doing it.

Get Bonds out of the Banking System

It can be done, but it is a harder job than it would have been to sell more of the Government bonds to finance the war to the people themselves during the war, because you are not going to get this huge money supply down until you can get the Government bonds and some other bonds out of the banking system.

How are you going to do that? Well, the Government can tax and pay them off. I am hearing you say, "That guy has never been in politics." Or, somebody can buy these bonds from the banking system. Who? You do not think for a minute that the life insurance companies are going to buy back the 2's of 1952-54 from banks that are paying 104 to 105 for them with a yield of one and a quarter or thereabouts? Who is going to buy those bonds back from the banking system except at a loss to the bankers? What is there in it for anyone? You say it is a riskless investment. The Government bond is just as good as the Government's taxing power during the next generation or two. That is all that stands behind the Government's promise, its taxing power.

More Taxes

It is all right with me. I lived in this grand old country before 1900. I will not be paying the taxes that are going to pay off this huge debt. You young fellows are going to take that on, and I sometimes shiver a little when it is urged upon me that the Government bond is riskless, and I have to think that its goodness depends on the taxes which this Government can collect from those who are the active money makers of this country in 20, or 30 years from now. Are they going to be willing to pay the taxes necessary to do what then has to be done currently, and, in addition, pay the taxes necessary to pay off the huge debt that we have created and liquidate the financial situation that we have developed?

I often wonder why we are so fearful of making use of the taxing power now and yet seem to believe that it can be used on our sons and grandsons in the coming generation.

You are as good a judge of that as I am, and better probably, because you are analysts, and that means, if you are successful analysts, that you are a good deal poetic and a little prophetic.

I sometimes wonder what would happen if the Equitable Life Assurance Society sold a good big block of its 2's of 52-54 at a 5-point profit, and thereby put in the till two and a half years' interest, and let the money stay in the bank or in the vault. You know, it is said of the old Equitable, from whom we got our name, that it would have been better off in 1917 if it had accumulated its cash between 1895 and 1917 and left it in the vault instead of buying Government consols during that period, which means that the Government consol market value in 1917 plus all the interest that had been received in the intervening years was less than the amount of cash that the company had paid for the consols.

That could happen again. Maybe it would not be such a bad idea to follow the advice of one of your houses not very long ago to put your cash away rather than take a return of 2.8,—and that is high now—and pay 50% income taxes and run the risk of having your capital decreased in the period of five of six years.

We do not all see these things the same way. That is fortunate. That is what makes business opportunities for us.

Just before I left the office, I was handed these figures. While we were buying those railroad bonds, to which your Chairman has referred another important insurance institution was selling railroad bonds. Here are five items sold during 1941 of a par value of $26 millions. The prices received for the sale of these bonds, none of which defaulted, were just $11 millions less than the present market value.

We have been fortunate enough on those railroad purchases that we made to have just the opposite experience. We realize there is a little bit of luck in investment, even if it is done on the advice of analysts, and we have had some of it.

Value of Investment Analysis

There are many phases of the investment problem which we all face. We need not merely statistical information, that is history. We need to know the present and its trends and we need to analyze to some extent the future. That's why I say you analysts should have a little of the prophet in you. For example, when we made that investment in public utilities to which your Chairman referred a few moments ago, it was the result of some statistical analysis and a good deal of legal analysis. As the result of both we came to the conclusion that the bonds of the generating and distributing companies would be good even though the holding companies might be affected by the death sentence legislation.

When later on we bought railroad bonds it was likewise the result of legal analysis as well as statistical. Indeed, it was rather more legal than statistical. When we considered making those railroad investments we were faced with the possibility that the underlying lien of the first-mortgage bond might not retain its legal priority but might suffer from being merged with subordinate securities in a common pot as in the case of municipal issues. After examining the legal situation we came to the conclusion that the courts would sustain the priority of the underlying bonds and they did.

We guessed right, and, therefore, invesments at a time of panicky selling of underlying first mortgage railroad bonds was a good investment, and it has turned out very beneficial to the policyholders of our institution.

Production Will Not Reduce Money Supply

In making up your minds as to what to do for the future, I think you can see very clearly that the dominating factor in my mind is the supply of money. It was reduced after 1929 by the call of loans in foreclosures. You cannot call the United States Government bonds and you cannot foreclose. The supply of money which has been provided by deficit financing cannot be wiped away as it was in the early 1930's. It cannot be wiped away by production. Production is eminently desirable, but production and the sale of automobiles and washing machines and refrigerators will move the money around, but it will still be there.

(Continued on page 1650)

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"Our Reporter on Governments"

By JOHN T. CHIPPENDALE, JR.

With maturities up to 1951 giving ground, the firming of short-term rates is being felt in the Government securities markets. . . . The higher return available in certificates has resulted in price declines in notes and bonds due within the next five years. . . . Aside from downward price adjustments in the shorter maturities and all of the partially exempts, the Government markets have been quite stable, with changes in the longer-term issues confined largely to fairly narrow limits. . . . There has been good buying recently in the 2¼s due 1956/59 and this bond was run up about 8/32nds last week, largely as a result of one fairly substantial institutional buy order.

This issue becomes bank eligible on Sept. 15 and because of the scarcity of intermediate-term issues that the commercial banks will be able to buy, there is accumulation of this obligation by institutions which believe that this bond has very good short-term appreciation possibilities. . . .

SHORT-TERM RATE ADVANCE INDICATED

It seems as though the trend toward somewhat higher short-term interest rates indicates an agreement between the Treasury and Federal on a credit policy which may have important consequences in the money market. . . . By a moderate increase in short-term rates, the pressure will be relieved on intermediate-term obligations. . . . There will, however, be no increase in the coupon rate of short-term issues. . . . By keeping offerings of long-term obligations scarce, there will be no increase in long-term interest rates; in fact there may even be a further decline in this rate, if the monetary authorities desire it. . . .

With no increase in the cost of short-term money, and long-term funds on a 2.25% basis or lower, the Treasury, by its cash payment of part of the debt, will continue to keep the debt burden bearable since the cost of carrying the debt will not be allowed to increase. . . .

EXCESS RESERVES

It is also indicated that the monetary authorities are going to bring excess reserves of the banking system down to levels where the member banks will not have too large amounts of surplus funds to put in the market. . . . This will take some of the pressure of bank buying from the outstanding obligations and thus prevent an increase in bank credit and deposits. . . .

By limiting the resources of the commercial banks available for investment, it is believed that the deposit institutions will concentrate these funds more largely in certificates of indebtedness because of the satisfactory return, shorter maturity, small premium, if any, and the practical immunity to risk of price fluctuations. . . .

MARKET RESPONSE AWAITED

Whether there will be selling of the 1952 and longer maturities of bank eligible issues will probably depend upon the reaction of insurance companies and savings banks to changed credit conditions and their preparations for new offerings of bonds. . . . It may be that insurance companies and savings banks will sell some of the bank eligible bonds at present high prices and reinvest part of the proceeds in certificates and part in long-term restricted obligations. . . . It is indicated that when new issues of long-term bonds are offered to institutional investors in the future, there will be restrictions on the purchasers. It is believed that they may be informed that if there should be selling of bank eligible bonds to pay for the new money obligations then subscriptions will be sharply curtailed, or even eliminated entirely. . . .

Therefore, in order to be in a position to take on sizeable amounts of these new securities when they are available, without selling bank eligible obligations, the savings banks and insurance companies may now do some eliminating of eligible issues, and reinvest the proceeds in short-term securities. . . .

Then when the new bonds are being offered these institutions will be able to buy substantial amounts of them and will use the funds obtained from maturities of short-term investments to pay for part of this commitment. . . . It may be that selling of bank eligible issues in anticipation of new offerings will cause some weakness in bank eligible obligations. . . .

ANOTHER POTENTIALITY

There seems to be considerable discussion about the elimination of the pegged rate for Treasury bills, and the effect this might have on the money markets. . . . It is quite obvious that if the fixed buying rate of Federal were taken out of the market, the bill rate would go to at least ½ of 1%. . . . A rate of ½% would be in line with a ⅞% rate for certificates. . . . This would be another factor in the firming of short-term interest rates. . . . Treasury bills are held principally by the Federal Reserve Banks, and an increase in the bill rate would have the greatest effect on the Central Banks. It would help the earnings of these institutions. . . . It does not seem as though an increase in the bill rate would result in a decrease in excess reserves. . . .

The excess reserves of the banking system are held largely by the country banks, and these institutions and their customers are not very much interested in the ⅞% certificates of indebtedness, not to mention the lower yielding Treasury bills. . . .

A higher bill rate would only tighten money rates in the large financial centers and would have practically no effect on medium or long-term rates. . . .

NO DEPOSIT GAINS EXPECTED

Because of the debt retirement program of the Government and changed economic conditions, it is not believed that deposits of commercial banks will increase very much during 1946. . . .This is a revised opinion since it had been expected that bank deposits would show fairly sizeable growth for the year. . . . It is believed that the return flow of currency from circulation will be smaller than was previously anticipated, due to:

(a) Higher wages.
(b) Higher prices.
(c) 1946 is expected to be a great tourist year.
(d) Black market operations.

Higher wage payments and higher prices for commodities and finished goods will mean more currency in circulation, while tourist expenditures and black market operations will mean that the use of currency will be large and the return flow will not be as fast as was expected. . . .

The slower return of currency from circulation will mean that the increase in bank deposits this year will be less than had been forecast. . . . Newly mined gold coming to the United States will not be too substantial. . . . All decreases in loans to brokers, dealers and others will most likely offset the increase in commercial loans. . . .

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Financial Facts and Fancies

(Continued from page 1649)

This money supply is going to be roaming around the country until, by taxation on the part of the Government, or by purchase on the part of the non-banking community, this great volume of Government bonds particularly, and also other bonds now in the banking system is taken out of the banking system.

I would like to call your attention to the fact that not only is it true that war production is subject to destruction, but also it is true that the money created to pay for war production survives its original use and stalks through the community even after the production has been destroyed.

There is plenty of this $185 billions of money supply today which was created to pay for wages and materials used to build carriers and other implements of war, which served their purpose, have been destroyed, but the money created to pay for them survived its original use by the Government and still stalks through the community.

If you think that not only is it going to be difficult to reduce the volume of our money supply, but also that it is likely to be increased by some of the reasons that I have suggested here today, well, you do not need much more analysis to decide most of the questions that are uppermost in your minds in the investment world.

Effect of Low Interest Rates

I will not risk giving you any advice. I simply state that the interest rate from which life insurance companies and their policyholders and all other investors and all thrifty people in the country are suffering is due to the money supply and the artifical means by which it has been created. It is the thrifty, hard-working people who suffer. It is only the thrifty who put aside some part of the results of their present labor for some future use. The ne'er-do-well does not suffer by low-interest rates. He spends all the money be gets his hands on and does not put any of it away.

The Treasury policy, says the Secretary of the Treasury and the President himself, will continue to emphasize low interest rates because of its great value to the people of the country.

Is the low interest rate of value to the people of the country? It is of no value to the thrifty saving people of the country who provide the capital that makes one generation a little better than the previous one.

As I said the other day, to another group like this, the low interest rate is one of the reasons why the veterans coming home have the privilege and advantage of paying $10,000 for a $5,000 house. That is what the low-interest rate does.

I know you all say, "Oh, he is an insurance investment man and he is feeling the pinch of the lower rates and he hopes there will be a turn." Yes, I hope there will be a turn, but not for the life insurance company's benefit; rather for the benefit of the general welfare of this country, now, and for the next twenty or thirty years. I am not one of those who wants the United States Government to create debt on any terms or at any rate in order that banks or life insurance companies will have something to invest in. I would rather see the debt of the United States wiped out entirely; we will find something else to invest in. As a matter of fact, we in the Equitable have invested in non-Government obligations on which we can live to the tune of about $125 or $130 millions since the first of this year; and if the financial and monetary situation in this country were put on a sound basis, the expansion of business that would go on in this country very promptly would very quickly provide us with satisfactory and sound investments for life insurance money.

What possible public policy can any representative of the people accept as satisfactory if it conflicts with the best interests of the 65 million policyholders of the life insurance companies and all other thrifty citizens. From the point of view of the corporate entity alone there are some consoling incidents of the low-interest rate. While our net interest earned last year up at the Equitable went down to about 2.82% of our total assets, our profits realized and in the till exceeded $51 millions. Therefore, I am not pleading for the life insurance institutions. I am pleading for the policyholders of life insurance institutions who will have to pay more net for their insurance if the interest rate continues to go down. We can administer the life insurance institutions in any atmosphere that I have yet admitted to be likely.

Everything Depends on Treasury Policy

This money matter is an exceedingly confusing and difficult subject involving many corporate and private interests, and especially involving the welfare of the entire country. The experts say that everything depends on Treasury policy. What is Treasury policy? The Treasury has only one policy, and that is a low and lower interest rate, and who makes Treasury policy? When Congress took us off the gold standard in 1933, it turned over, in fact, to the Treasury experts, the making of Treasury policy affecting the value of every dollar in your pockets today. It is the Treasury experts who make current Treasury policy, and who are they? I do not know, and I will bet you do not know. You certainly would not accuse the Secretary of the Treasury of making those policies. The Federal Reserve Board has a great responsibility, and it has indicated its recognition of the danger confronting us, but it has not acted to control Treasury policy.

Responsibilty of Congress

The time has come for Congress to take back the making of Treasury policy and all Government policy with respect to this matter of monetary soundness and money supply, because everything that you do and everything that I do depends upon it.

My life is a failure if the purchasing value of the dollar in which the Equitable policies are paid decreases to the point where the policyholder and his beneficiaries cannot possibly get the things for which he bought those policies. I have given 25 years of my life to administer the Equitable, a great semi-public institution, and I am proud of every minute that I have spent in that job, but it is utter failure for me, notwithstanding many good results, if this process of monetizing debt goes on to the point of creating a money supply which destroys the purchasing value of the dollar.

So I say the time has come for Congress to appoint a Monetary Commission of men of experience in Congress and in the business and banking world to do what was done in 1912, that is, examine the whole banking, debt and monetary situation, so that Congress can deal intelligently and quickly with the subject.

Annual Meeting of Pittsburgh Bond Club

PITTSBURGH, PA.—The annual business meeting and election of officers will be held in the East Room of the Roosevelt Hotel at 5 p.m. today, March 28, 1946. The proposed amendments to the by-laws wil be voted on at this meeting, and in addition members will consider the question of the Bond Club of Pittsburgh becoming affiliated with and its members becoming members of the National Security Traders Association. The latter question was discussed at a special meeting on March 15, but carried over until the annual meeting because of lack of time.

A cocktail bar will be set up in the Gold Room beginning at 6:15 p.m. at the members' expense.

There will be a charge of $5.00 for guests at dinner.

Arrangements have been made for cards, etc., in the East Room after dinner.

The Nominating Committee consisting of J. Ray Baldridge, Chairman; Owen Kraft, T. O. Harris, Harry Steele, and Thomas O'D. Murray presents the following members for the coming year.

Officers: S. W. Steinecke, S. K. Cunningham & Co., President; Franklin Maroney, Blair & Co., Vice-President; Joseph Buffington, Jr., Mellon Securities Corp., Secretary; Bernard C. Kelley, Halsey, Stuart & Co., Treasurer.

Board of Governors: Robert C. Schmertz, Phillips, Schmertz & Co., one year term; John E. Friday, Mellon Securities Corp. and John Klima, R. H. Johnson & Co., two year terms.

Business Outlook and Trends

(Continued from page 1639)

back about four months as the result of strikes. It is to be hoped that a satisfactory formula may be found that will do away with this antiquated procedure and a fair method of settlement devised that will obviate the waste and losses that strikes entail. It would seem that in this enlightened age some procedure to avoid industrial conflict might be set up perhaps on the plan similar to that of the UNO, or something similar to the Swedish plan which has practically eliminated strikes.

Excellent Business Outlook

What is the business outlook for 1946 and 1947? The outlook is excellent. Let me tell you why. First let us consider the deferred demand for goods of all kinds.

At the end of 1941 there were nearly 28 million passenger cars on our highways. At the present time there are less than 23 million, practically all over four years of age, with most of them well past the normal prewar retirement age. We need to fill the urgent demand for five million cars that this gap represents in order to bring us up to prewar level. We must also replace cars that have been outworn, which represents an even greater number, and finally, we must meet the demand of the large number of persons who never owned a car but now want and can afford to buy one. By 1947 it is likely that the sales volume of automobiles and automotive equipment will be 75% greater than in 1939, at 1939 prices.

In the household appliance field we have similar shortages resulting from wornout mechanical refrigerators, washing machines, ironers, radios, vacuum cleaners, pianos and the like, with the demand made more acute as a result of the crop of new families that have been added since production ceased. It is estimated that the sales volume for 1947 will be over 67% above that of 1939.

In the apparel field we are short about 40 million men's and boys' suits, to say nothing of large quantities of women's, children's and infants' apparel.

Our shoe stores need 150 million pairs of shoes to fill the gaps on their shelves.

In the plastics field it is estimated that even if plants should work at capacity for the next two years the industry could not fill all the orders in sight.

The furniture and house furnishings industry is swamped with unfilled orders, with a prospective sales volume that will total nearly 50% greater by 1947 than in 1939.

Tobacco products, chemicals, electrical and non-electrical machinery, rubber products, stone, clay, and glass products, petroleum, coal, processed foods, printing and publishing, paper, textiles and lumber all look for substantial increases in sales volume running from 25 to 75% greater by 1947 than in 1939.

In the field of transportation equipment we have great quantities of unfilled and prospective orders. Our railroads are badly run down; locomotives, passenger cars and freight cars need to be replaced; road beds improved, bridges repaired or reconstructed. The strain on the present equipment has been unusually heavy, as illustrated right here in the city of New York in the number of passengers using the Pennsylvania Station. This number rose from 61 million in 1941 to over 109 million in 1945. Nor do I need to tell you of the rehabilitation job required in the motor transport, bus, subway, street car and shipbuilding fields. It is estimated that the sales volume of the transportation equipment industry will be 75% greater by 1947 than in 1939.

Construction Industry

And now we come to the greatest of all potential sources of business, the construction industry. Few if any industries suffered as much attrition during the war as civilian construction. It is estimated that it will take from eight to 10 years to fill our requirements in this field, including residential, industrial and commercial construction. We need four to five million residential units to fill our immediate urgent needs, of which two and one-half million are for veterans' use. The Borough of Brooklyn alone needs 30,000 new homes. As for commercial and industrial space, New York City is at this very moment short over three million square feet of space, and the rest of the state is short about six million square feet. To this must be added repair and rehabilitation of buildings in cities and farms, many of which have been sorely neglected during the depression years and war years. Construction programs of public buildings and highways must also be taken into consideration.

These construction projects represent a source of employment directly and indirectly for about 10% of our entire working force when in full operation.

During the war our capital goods on which our expansion depends was badly run down, 70% to 90% of our equipment being more than 10 years of age at the start of the war. Replacement has been at a low ebb during the past four years. It will take years to replace this wornout and obsolescent equipment.

The Pent-Up Purchasing Power

I have referred in some detail to the pent-up demand for various types of products now facing us. I should now like to speak of the purchasing power or income which is an important factor to be considered, since it along with shortages of goods is acting as a strong inflationary influence.

The American people saved during the war years some 135 billions of dollars, a sum greater than the entire national income during any year prior to 1942. Persons with annual incomes under $10,000 have accumulated savings equal to that of an entire single peacetime year. A substantial portion of this will be used to make important major purchases as soon as supplies become available.

However, when this urgent demand is ultimately satisfied, we may expect a self-sustaining period during which purchases will depend on the current incomes of our workers.

In the war years, incomes increased rapidly and the trend since then has been to keep them at a high level.

Six million families have moved up from the "under $1,000" bracket to the "$1,000-$2,000" bracket. Altogether, some 10,000,000 families have increased their incomes sufficiently to rise into higher income brackets. It is anticipated that in view of the prevailing high wages, about one-half of this number will continue to remain in their new higher income bracket, with the result that this group will become potential purchasers of goods for which it had not been in the market heretofore despite the increase in the cost of living. We are thus faced with a tremendous purchasing power that only another wave of strikes can reduce materially.

We see this new purchasing power exemplified in some of the new types of customers patronizing our exclusive shops all over the country. We notice it particularly in the City of New York in our Fifth Avenue and Madison Avenue shops, where working people who formerly patronized the popular-priced stores are now doing some of their important quality shopping.

The retail trade has for the third successive year reflected this surge of buying and uptrading. Dollar volume sales in 1945 exceeded those in 1944 by 10%, and the first two months of 1946 showed increases over the corresponding months of 1945 by about 15%. Never in our history have our retail merchants enjoyed such prosperity, nor have they been as liquid nor as free from failures as they are at the present time. From a check which I recently made in the Second U. S. Department of Commerce Region, I found evidence that would indicate retail sales for 1946 in this region would probably exceed those of the record-breaking year of 1945 by 10%, and with the availability of durable goods once more in sight with the settlement of our steel strike, this figure should be increased.

When Danger of Deflation Comes

This all adds up to prospective prosperity for the immediate years that lie ahead. But the time will come when our urgent wants are filled and our shelves are again restocked, and we will be faced with the danger of unemployment and deflation unless we use protective measures. To prevent this we will need among other things increased mass production through continued technological improvements, which in turn will decrease costs so that our lower income bracket families will be able to purchase products normally out of their reach. We saw this process well illustrated in the case of the radio, which came down from $200 to $20 or less, per receiver, in the space of a few years, thus providing almost universal use.

Another way to avoid deflation will be to develop our distribution and advertising techniques to make more readily available and more acutely desirable the products which we have not been accustomed to using. Still another important way to avoid deflation and keep our wheels turning with resultant full employment will be to develop our foreign trade both in imports and exports, these being interdependent. I need not tell you of the enormous foreign markets that lie waiting for us both for consumer goods and capital equipment in the countries overseas. Before the war our exports were below three billion dollars per year. We will have to raise it to 10 billion dollars per year in the postwar period, thus providing employment directly and indirectly for an additional five million workers.

Foreign Trade Outlook

I recently returned from a joint military economic mission to the Far East at the invitation of the Secretary of War. I visited in addition to the islands in the Pacific, such as Hawaii, the Marshalls and Gilberts, the Marianas, Okinawa, such countries as the Philippines, Japan and China. I saw destruction that will take many years to reconstruct—buildings shattered, railways bombed out, ships lying on their sides, industries broken down into rubble and stores either closed down or with only a few things to sell. Except for lumber and some low-grade textiles, we will have demand for practically everything necessary in the reconstruction of these countries and in the filling of their stores. The same thing applies, I am told, in even greater degree to parts of Europe. Then, too, in the Far East nearly a billion people living under low standards may become prospective customers as their financial condition improves, because they are becoming indoctrinated with the idea that living conditions can be made easier through the use of modern goods and equipment even though these be of modest type. Have you thought what the use of kitchens to replace outdoor cooking would mean to our industries as well as in the improvement of the national health of the underprivileged persons in many foreign countries?

Of course the question arises at once how will these countries and these people be able to pay for the things they need? In the beginning these purchases may have to be financed through the credit facilities provided by the Bretton Woods program and the Export-Import Bank. We are, however, helping many countries to inventory their own resources both natural and human so that we can balance our exports eventually with their exports to us. We can use their oil, tea, coffee, olives, minerals, precious and semi-precious metals, hides, silk, lace, handicraft, and the like.

We need not be afraid of competition resulting from industrializing these countries. It has been our experience that the greater a foreign country becomes industrialized, the better customer it becomes, so long as it specializes in the material and products it is best qualified to produce. An excellent illustration is provided by Canada, which we helped to industrialize and it is today our best customer in this hemisphere. Indeed, Canada buys more goods from us than all the Latin countries put together.

Technological Progress Basis of Our Economy

You are all familiar with the basis of our sound national economy. It is constant technological improvements providing greater mass production at lower costs and the development of wider markets resulting in increased profits based on larger volume, rather than on higher prices. We cannot be satisfied with much of the traditional prewar policy of operating at two-thirds capacity as has been the custom too often with business and industry in the past.

In this full production, full employment program the United States Department of Commerce has a vital role. Secretary Wallace stated recently in an address in this city that "it is the department's job to promote business; to provide services that business can't provide for itself; to speak for business and government; and to work for a climate of public policy favorable to business expansion. The department's efforts have been and will continue to be devoted to advancing all legitimate competitive business interests.

It is with these general goals in mind that a plan has been developed for strengthening the program of the department. Under this plan, the department will undertake to provide:

1. Revitalized foreign trade promotion services.
2. Management aids, technological aids, marketing aids, and other forms of direct service for business.
3. Strengthening of the technical bureaus and offices of the department.
4. A strong, balanced program of current and "benchmark" statistics and a complete analytical program to give business and government current information on the economic situation and business outlook.

This advertisement is not, and is under no circumstances to be construed as, an offering of these securities for sale, or as an offer to buy, or as a solicitation of an offer to buy, any of such securities. The offering is made only by the Prospectus.

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March 27, 1946

Securities Salesman's Corner

By JOHN DUTTON

Somebody Should Introduce Mr. Higgins to Mr. Kaiser

Andrew J. Higgins of New Orleans should meet Henry Kaiser and ask him a few questions. Both of these esteemed industrialists have been doing some public financing lately. This has necessitated contact and dealings with the SEC. The manner in which Mr. Kaiser's financing was expedited and cleared through the Commission, and the obstacles which Mr. Higgins had to face only a few months later, certainly is leaving a lot of people pretty high in the air.

One thing about Henry Kaiser, ever since the war started he has known on what side of the bread his butter was spread. Maybe Andy Higgins shouldn't have popped off on several occasions, in a manner not too complimentary concerning some of the present administration's labor policies. With Henry it has always been a practice to take all the government money he can get, government contracts ditto, raise wages (what's the difference if it's at government expense), and if not, do it anyway just as long as you are in right with the OPA and can get some brand new ceilings to cover the higher costs. Henry has spread the New Deal managed economy line, played ball with the Washington bureaucrats, and smiled, smiled, smiled. What Andy Higgins didn't know is that you can't get government contracts, government loans, and build a little two by four motor boat factory into a gigantic industry without continuing to be a good little boy; and if there were some things that you didn't like that the New Dealers were doing, you either kept quiet, or better still, said YAH! Anyway Henry got his money. If someone else had sold millions of dollars worth of stock in a company that had never made an automobile, and had nothing else in the shape of assets except a few blue prints, at the price of $10 a share; and a few months later had the temerity to double the dose at $20 a share, the chances are the SEC would have cracked down with enough charges to keep a thousand Philadelphia lawyers busy from that time forward until Henry finally produced an automobile.

It is common talk that certain underwriters who had the Higgins deal in the first place shouldn't have been so active in New Jersey politics. After all you can't get very far in politics, if your opponent can say something to the great gullible voting public about the fact that a certain government agency known as the SEC had recently suspended you from something or other. To be a Wall Streeter and to run for public office (against a Democrat or a New Dealer) is handicap enough, but to be penalized by that guardian savior of mankind, the SEC, well that's too much of a handicap for anyone. The rumors have it that somebody resigned from the New Jersey political race just about two hours after the SEC paid him a visit. It was all right for Kaiser-Frazer to sell at 15 in the pre-issued market, but it wasn't according to hoyle for the Higgins stock to do the same.

Whether the charges and rumors that have been going the rounds regarding this entire affair are true or not, is hardly the issue. Certainly it is not the fault of the public, and the Securities industry, if such suspicions of evil doing are rampant regarding the SEC. Where there is as much indecision, lack of policy, and, the hit or miss methods of laying down rules and regulations, as has been the case with the Commission in the past several years, it is no wonder that confidence in that government agency is at such a low point that security dealers and brokers don't trust the sanctity of their telephone conversations on important matters. We have heard that some of the better known underwriting firms in the Street are afraid to discuss every day business matters over the telephone. They don't know where they stand with the SEC. They don't know at what point some new rule may be sprung upon them that will lead to their embarrassment, and the possibility of having their name dragged through the mud of a public censure by the SEC. That's a pretty low state for the Commission to have sunk in the eyes of many of the people in the industry. It's time for a complete airing of this whole business.

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Joe Warren Vice-Pres. of Dallas Rupe Co.; Pearson Trading Mgr.

DALLAS, TEXAS—Dallas Rupe & Sons, Kirby Building, investment bankers, announce the election of Jos B. Warren as Vice-President in charge of the firm's Municipal Department. Mr. Warren, with 19 years experience in the securities business, joined the Rupe organization upon his return from overseas in September, 1945, having seen service as a Major in the Fifth Marine Division.

Joe B. Warren

G. Harold Pearsor

G. Harold Pearson has been appointed manager of the Trading Department, it was announced at a luncheon given by the firm in the Texas Room of the Baker Hotel, honoring James F. Jacques, whose resignation as head of the Trading Department becomes effective April 1.

Mr. Jacques came from Chicago to join the Rupe organization 12 years ago and in recognition of the long association, D. Gordon Rupe, Jr., made the presentation of a watch on behalf of the firm and its employees.

Among more than 100 guests present at the luncheon were representatives of investment houses in Houston, Fort Worth and San Antonio.

Mr. Pearson, the new Trading Department Manager, has been assistant to Mr. Jacques the past two years. Mr. J. B. Garrett will be transferred from the Cashier's Department as assistant to Mr. Pearson.

Philadelphia Stock Exchange to Elect

PHILADELPHIA, PA.—The annual election of the Philadelphia Stock Exchange for President and members of the Board of Governors will be held at the Exchange on Monday, April 1, betwen the hours of 9 o'clock a.m. and 12 o'clock noon.

Nominated for the presidency is Frank E. Baker of Baker, Weeks & Harden.

Nominated for the Board of Governors (8 to be elected) are Howard Butcher, Jr., Butcher & Sherrerd; Holstein De Haven Fox, A. O. Wood, Jr. & Co.; John R. Huhn, Jr.; John S. P. Makiver, Penington, Colket & Co.; George L. Morris, Hornblower & Weeks; Frank L. Newburger, Jr., Newburger & Hano; Edgar Scott, Montgomery, Scott & Co.; Charles Sheridan, Sheridan, Bogan Co.; David S. Soliday, Hopper, Soliday & Co.; Edward J. Tague, Jr., Turton & Tague; Henry G. Weeks, Weeks & Co., and Spencer D. Wright, Jr., Wright, Wood & Co.

G. A. McFaul Partner in John J. Hess Co.

PORTLAND, ORE. — John J. Hess has admitted George A. McFaul to partnership in John J. Hess & Co., American Bank Building. Mr. McFaul has been Vice-President of Daugherty, Cole & Co. for a number of years.

Is a Stock Market Collapse Coming?

(Continued from page 1630)

of July, 1945, stated that the security markets "are being whipped up by the scandalous operations of tipsters and unscrupulous 'advisers.'" That "the public is back in Wall Street on a scale not seen for 16 years, trading millions of shares on the basis of rumors, hunches and impulses. Once again cat-and-dog stocks are swinging through sensational gyrations — rising 100% in ten days, then collapsing."

Apparently that flurry of fear was premature and greatly overstated, because quotations on low-priced stocks did not collapse. The extent of error in the warning is indicated by subsequent action of the market itself. The Dow-Jones Industrial Average price, instead of declining sharply after this blast was sounded, continued its upward climb throughout the final half of 1945, registering a rise of about 26% in the last six months of the year. After a lull in the latter part of December, vigorous new highs were made in early January, 1946, even though production of goods and the profits of enterprise were endangered, and in some cases entirely stopped, by strikes. When in late January there arose an overly optimistic belief that the strikes were about to end, the market gained about five points in one day, and in early February the Industrial Average climbed to 206.97. This was the highest level since October, 1930, at a time when stock prices were on their way down from the high of 381.2 in 1929.

Constructive New Market Factors

One reason for the error in the analytical judgment of critics was that most of them overlooked a large number of constructive new market factors which have come into play in recent years, and have not been given their deserved degree of recognition. Indeed, there is sound reason for the belief that the market at no time in 1945 was unjustifiably high, and that the degree of activity in Wall Street which many traders expected and were prepared to welcome for a prolonged period following V-J Day was a real possibility until the strikers and the OPA threw monkeywrenches into the machinery.

Early in 1946 a new wave of Wall Street phobia was released in the public press, ostensibly to save the market from itself—to forestall a so-called "Boom or Bust." Charging that danger signals were becoming too ominous, the Federal Reserve Board forbade all trading of securities on margin. The Chairman of the Board explained his fear of inflation and his theory of inflation prevention. And a new crop of writers began to warn the public against the pitfalls of speculation in securities.

Let us take a clear and careful look at Wall Street as a market, and try to see if there is danger ahead. If danger is found to exist, let us determine why it is there and how to appraise and avoid it.

Shrinking Supply of Stocks

One of the first things to be seen in Wall Street, as a factor accounting in part for the market performance in 1945-46, is the shrinking amount of merchandise for sale—merchandise in the form of stocks and bonds. In the last year or two the volume of securities available for trading on the New York Stock Exchange has been reduced by hundreds of millions of dollars by means of bond retirements. Money to pay off the bonds in many cases has been borrowed from banks. By virtue of the fact that banks are gorged with money, they are eager to make long-term loans at interest rates lower than the prevailing rates on corporate bonds.

Furthermore, bonds are not the only securities which are being taken off the market. Many preferred stocks in public utility holding companies have been liquidated, and others are in course of liquidation. This reduction in number of bonds and stocks for sale naturally serves to strengthen prices in a period when the buying power of the public is increasing. Wall Street responds to this set of factors in normal market fashion. The same kind of results may be found in the markets for butter, beef or nylon hose, with buyers becoming insistent and prices going up.

Last year's action of the market was only another demonstration of the well known economic principle that when demand for goods increases faster than the supply, prices are pretty sure to rise. The price level, whether in Wall Street or in Timbuctu, is an effect rather than a cause. If the price of mules in an inland market suddenly goes up 50% or 100% the farmers of Missouri and elsewhere are pretty sure to look for the cause. But the farmers, in contrast to the methods of Wall Street critics, proceed to correct the situation by raising more mules rather than by heaping blame upon the market place.

The Increased Money Supply

Another reason why security price rises were justified and inevitable in recent years is that people's pockets were full of money. National income, which was only $71 billions in 1937—the best year in the whole decade of the 1930's—increased to about $160 billions in 1945. The money available for investment in 1937, as measured by bank deposits in Federal Reserve banks, was under $21 billions, whereas in 1945 it had increased to over $60 billions.

Facts such as these are the ones which have been overlooked by recent critics of the stock market. And without giving consideration to them, an accurate market appraisal is impossible. With national income more than doubled, and bank deposits practically trebled, it is only natural that a large crop of potential investors should be looking for bargains. The wonder is that in 1945 the buying of stocks on the New York Stock Exchange averaged only about 1,258,000 shares a day, whereas in 1937 the average was 1,365,000 shares a day. Back in 1929, when the term "Boom Market" was really justified, the average number of shares traded per day was about 3,866,000. Thus, the daily volume of transactions in 1929, when margin trading was generously permitted and the public was in the market, was more than 207% above the 1945 volume. Stock prices in 1945, from the low of January to the high of December, went up 29.3%, whereas in 12 months ended with the March high in 1937 they went up 35%.

In 12 months to the date of the September high in 1929 the rise was 60%.

No Unorderly Stock Speculation

These facts seem to indicate that, in comparison with security prices in 1937 and 1929, the 1945 market in Wall Street was orderly, sound, well-justified and conservative. Indeed, Wall Street during the recent war was not lucrative enough to attract its usual proportion of the nation's resources. A lot of money found better bargains elsewhere, and stayed away from Wall Street. We read in the daily press that the market for farm lands, apartment houses and business properties is booming. It is reported that date growers in California in 1944 made 100% or better on their entire investment in date groves, and that much Wall Street money went to California.

As a matter of fact, there were many types of speculation which were more attractive than Stock Market securities during the recent war. The price of cattle, even though controlled by a ceiling, advanced 118% from the low of 1938 to the high of 1945. Hog prices did not reach their depression low for two years after 1938, and then they advanced 194% from the low of 1940 to the peak in 1945. The price of eggs, in a similar period, went up 203%, while the advance in butter was 104%. These examples would seem to indicate that any man who remained in Wall Street during World War II was a piker, because stock prices, as measured by the Dow-Jones Industrial Average, advanced only 98% from the depression low of 1938 to the high of 1945. From the day prior to the outbreak of war in Europe in September, 1939, to the day in December, 1945, when the highest security market of the year was recorded, stocks in the Dow-Jones Industrial group went up only 40%, while the approximate advance in cattle prices was 71%, hogs 130%, butter 89% and eggs 134%.

The farmer who never heard of Wall Street except in a derogatory sense, having always been told that Wall Street speculators are the world's champion gamblers, rushed out to buy a colt or a bunch of shoats or a herd of calves or an adjoining farm. This quality of foresight caused him to be looked upon by his neighbors as a good business man. He probably made a bigger profit and certainly took a bigger risk than most men who bought securities in Wall Street. His livestock was liable at any time to be stricken by lightning or fire or disease or flood, causing a total loss. Yet this rural trader, in the eyes of his neighbors, is a gentleman, not a speculator.

Cause for Crash May Come Outside of Wall Street

The speculator in Wall Street buys for cash, keeps his securities in a safety vault, acts at least a part of the time upon reliable financial advice, unless he himself is an expert, and has a ready market for his holdings if the time comes when sale seems advisable. Thus far, not once since the market rise began in 1942 has the investor been faced with any pressing need to become a seller. The end of the war brought no jolt to the financial community. Peace found investors with plenty of confidence and pockets full of money—two factors which do not breed a market collapse. If a collapse comes at any early date it is likely to be the result of excesses or foolishness elsewhere than in Wall Street, because people still have money, and any recent wilting of their confidence can be restored quickly if labor settles down to work and the politicians do not meddle too much.

Further light can be thrown upon the present status of the stock price level by comparing it with market performance in 1935-37. In that period the country was recovering from a severe depression. Early in 1935 the security markets began to advance vigorously, corporation earnings expanded, employment increased, and the country seemed to be pulling out of the economic slump. By the end of 1937, unemployment had been reduced to around 8,300,000, and the national income that year was 71 billion dollars. The highest closing price of the Dow-Jones Industrial Average in 1937 was 194.4, being approximately the same as the high of 195.8 in December, 1945.

The Extent of Stock Market Advance

Considerable significance attaches to the fact that stock prices in 1945, after a long war in which national income increased enormously to unprecedented heights, were only fractionally above their maximum level in 1937. In reflection of the large funds available for investment, the drying up of many of the previous attractive outlets for venture capital, and the expectation that business and profits of the leading corporations would be tremendous after the war, the surprising thing about the 1942-45 market is that it did not carry through to a plane well above that of the short boom in 1936-37.

It is true that many of the low-priced stocks on the New York Stock Exchange have gone up in price more than the Dow-Jones Averages. Back in 1935 our Congress passed the Public Utility Holding Company Act, with its death sentence clause. This took the last spark of life out of many securities, and marked the onward march of a governmental theory which dissipates private initiative as well as fortunes. Subsequent action by the Securities and Exchange Commission, and the integration, reorganization or liquidation of numerous public utility holding companies has proven that many securities which the market a few years ago appraised as worthless should have been regarded with much greater respect. Many of them possessed enormous hidden asset values. Discovery of these legitimate values in the last two or three years accounts in large measure for the so-called boom in many low-priced stocks.

Still another factor has had a supplemental effect. Production of war materials led to the discovery of many new and amazing industrial processes and products. Electronics is a new industry. Stocks of electronics companies have risen in price, from practically nothing to many dollars per share, on the strength of romance and earnings prospects. The same has been true in the fields of air transport, plastics, chemicals, drugs and some others. These advances in stock prices are not mere flashes in the pan. They represent new industrial horizons which only some alert individuals have been able to see. They reflect a sound market appraisal of new ideas of great promise. Persons who are attuned to such developments would have been dumb not to buy the stocks, and to sell them at a profit is no more diabolical than to sell a house or a horse or a cultivator at current advanced price levels. All men are alike when it comes to bargain snatching, and it makes no difference whether they are operating in Wall Street or in the trading center of a rural village.

Effect of Low Industrial Earnings

In contrast with so many favorable market factors, the combined influences of which resulted in an active and steadily rising market for securities, it is necessary to note the absence of one feature which ordinarily is required in reasonably full measure to create a genuine bull market. Indeed, the absence of this factor probably played a major role in holding the market down. This element—the veritable missing link—was the relatively low earnings of a number of the country's outstanding corporations. Taxes, price ceilings, priorities, renegotiation and other controls kept war earnings low, and the wave of market optimism which surged up after V-J Day no doubt was at least partially inspired by the belief that in the postwar period there would be a great increase in net incomes.

That numerous companies needed and were entitled to relief from earnings restrictions can be established by a study of the financial statements of Chrysler Corp. and many other leading manufacturers. Chrysler's net income for the five years of 1940-44 was smaller by approximately $62,000,000, or 31%, than earnings for the five years of 1935-39, despite the fact that the earlier period contained the closing year of the great depression of 1929 and the entire span of the short but severe depression of 1938.

Comparative earnings of other big corporations in 1940-44 versus 1935-39 show that net income of General Motors declined 1%, American Smelting & Refining 16%, National Biscuit 24%, and American Tobacco 5.4%. A few large units which increased earnings during the war, but not enough to crow too much about, are General Electric, 24%; General Foods, 9%; Johns-Manville, 56%; Packard Motors, 34%; Phelps Dodge, 32%; Union Carbide & Carbon, 23%; and Westinghouse, 51%.

United States Steel, when appraised in this manner, made a highly creditable gain of 129%. However, this good showing resulted not so much from big wartime earnings as from the fact that the years 1935-39, with which comparison is made, constituted a depression period for the steel company. In one of those years Big Steel had a deficit of $7,700,000, and in another it little better than broke even. Common stockholders received a dividend in only one of those five years, and that dividend amounted to only one dollar.

Largely because so many corporations were unable to make satisfactory profits, security speculation was less attractive in World War II than in previous wars. Moreover, there were restraints upon traders as well as upon company earnings. The number of bargain hunters was great enough, as should be the case in a free country where enterprise is a virture, but they had to search far and wide for profit opportunities. Instead of centering their activities in Wall Street, or the Chicago Board of Trade, or the Cotton Exchanges, they operated in numerous market places throughout the country. As was indicated in a previous paragraph, Wall Street was not sufficiently attractive to hold the usual coterie of speculators, and many of them found better opportunities in California or in rural markets.

Wall Street Not an Isolated Market

As to the future of Wall Street, it is tied up with the future of the markets for commodities, farms, labor, and all kinds of personal service. Millions of civilians are hungry for automobiles, refrigerators, surloin steak, smoked ham, shirts with adequate tails, suits and dresses, nylon hose, and other thousands of articles requiring manufacture. Moreover, the public has the money with which to buy. If production were adequate, there would be a veritable orgy of buying and consuming.

The one thing now necessary to swing the country into a period of high earnings, increasing wages and mounting standards of living is heavy production. If labor and management do their part, and are not restrained by uneconomic laws and regulations, there will be much more reason to expect the Stock Market to go up than down. Other types of markets will be similarly affected, and the country will have genuine prosperity. However, persistent strikes or unjust restriction of profits could seriously retard output and force the security markets and labor markets into a long period of degeneration if not into a tailspin. To delay production unduly would be a tragedy for which Wall Street would have to suffer, although the blame would lie elsewhere.

Wall Street at present is dependent to an unusual extent upon outside developments. The "Street" would like to see an uncommon degree of wisdom displayed by politicians, governmental agencies, labor leaders and industrial managers. It would like to see the high production to which the public is entitled, and higher wages in every justifiable case. However, employees must be worth what they are paid, or the whole economic structure, and Wall Street, may collapse. The idea of getting pay for doing nothing, in a country where private enterprise prevails, can only be a resounding fallacy. Even in a truly socialistic nation it would scarcely prove successful. Nor is any informed person likely to be so naive as to suggest that it could succeed in a communistic country where the government is a dictatorship.

Indeed, the success of Wall Street as a market place is dependent upon the success of business and of all other types of market places throughout the country. The Stock Market is sure to collapse if private enterprise is killed. Private enterprise may be killed unless it receives an increasing degree of encouragement. But if the rest of the country does its part, Wall Street and labor and industry, and all legitimate markets far and wide, may look forward to one of the most profitable periods in American history.

Chicago FHLB Reports Large Feb. Lendings

February of this year was the second most active February in the lending history of the Federal Home Loan Bank of Chicago, A. R. Gardner, President, reported on March 11 to the Federal Home Loan Bank Administration in Washington. A total of $1,513,755 was advanced to Illinois and Wisconsin savings, building and loan associations, which was only 9% under the all-time record February of two years ago. The advices from the Chicago Home Loan Bank added:

Other February figures combine to build a further picture of the expanding part which this regional reserve system is playing in home financing operations in this district. There are 142 associations using the Bank's credit and retailing it in their communities to home owners, compared with 102 a year ago. The volume of advances outstanding to these institutions is more than double that of a year ago, $30,751,953 compared with $13.515.839.

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March 25, 1946

Are Price Controls Necessary for the "Unprotected"?

(Continued from page 1631)

market, etc., etc. Among the few things currently in abundance are fear and money.

An overly ambitious government, in attempting to be all things to all people, is likely to welcome fears, then the people will demand more protection. Such a government might even use people's tax money to finance a campaign of fear.

Not that all these fears are groundless! The fear of inflation and rising prices is the one most talked about, most real. Who suffers from inflation, and, therefore, who needs protection from it?

Who Needs Protection?

A person is harmed, economically, if he is prevented from producing or if any part of the worth of what he produces is taken from him. On a national basis, the first of these affects the size of the melon, so to speak, and the second affects the way it is sliced. Inflation may affect either, and one who receives a smaller piece for either reason thus becomes "unprotected". A reduction in the size of the melon forces most everyone into the unprotected class; otherwise, the unprotected are only those who suffer from a change in the way it is sliced. I shall discuss both.

There are also the renters, who feel unprotected, and I will have a word to say about that situation.

Finally, but to be discussed first, is the plight of the poor.

Protecting the Poor

I wish first to discuss the protecting of the poor, because it is a mental decoy that gets us off the main track of wage and price controls in this emergency period of inflation. It is an important and fascinating subject, but there is not the time to treat it fully.

"The poor we have with us always." At least, we have with us, always, the would-be benefactors of the poor. They are claiming in current discussions that these controls should be continued in order to protect the poor during inflation. But the plight of the poor is not a new and emergency problem, calling for peculiar measures at this time. In fact, it is even less of a problem now than before the war, because the incomes of the lower third have increased more than those of the middle or upper third.

Production is of prime importance in helping the poor. A nation can consume no more than is produced for consumption.

And when I say "production", I mean quality as well as quantity —*what* people want, as well as how much. The idea of production in any other sense makes nonsense. If the demands of the people in a free market do not guide what is to be produced, the production figures are inflated. The net effect of controls is to *reduce* production, and, therefore, to reduce what is available for consumption—for the poor along with the unpoor. Any haberdasher must know that you cannot sell shirts when there are no shirts, and any advertising executive must know that advertising does not produce shirts.

The original work of Pareto, confirmed by many others since, was the scientific discovery of the ever presence of the poor in any country. His studies revealed an amazingly similar pattern of inequality of income in different countries at different times and under all sorts of different governments and conditions. In other words, in each country there will always be a third that is ill-fed, ill-clothed, and ill-housed as compared with the other two-thirds; this seems to prevail as a sort of "natural law." It affords an excellent issue for any political party aspiring to permanent rule, because as a platform it is so permanent.

In view of this evidence, those who request continuation of controls in the interests of the poor, during this emergency of inflation, are not really asking for temporary extension. They are, in terms of their argument, asking that they be made permanent—as permanent as the ever presence of the poor.

But we need not be so pessimistic about the plight of the poor. In another and more useful sense, Pareto's work shows how poorness in an absolute sense is not the necessary destiny of any part of any nation. The lowness of the low third in any nation depends on the *average* production of that nation. The poorest of one nation may be economic royalists compared with the poorest of another, as illustrated by the United States compared with Asia. The average person here produces in an hour nearly ten times as much as the average for the continent of Asia. That is why the most poverty-stricken few (per cent) of our population are able to consume six times as much of the luxury meats and livestock products as the average of Asia, both rich and poor, and how they can indulge in other luxuries almost unheard of by anyone there.

On a short time basis, the poor can be given a larger share. One way to do this would be to allow everyone to rob his more prosperous neighbor, but there are other supposedly more respectable techniques for accomplishing transfers of wealth and income. Any of these offer only short time benefits, after which the share "for the poor" becomes a smaller and smaller piece because of reduced production.

The greatest total production and the greatest welfare of the poor, on a sustaining basis, will occur in the absence of controls, where each person is free to be enterprising and to get ahead, and where he receives as nearly as possible the equivalent of what he produces. In all truth and verified by the experience of all history, such is the way to protect the poor. We must, if we really wish to give them sustained help, discard the belief that a nation's economy is like a pack of wolves fighting over one sheep carcas. Ours is not that kind of an economy. It is more like shepherds who produce sheep, and who know that the more they produce the more they will have. They will quit producing if there are too many ravaging wolves.

So much for the plight of the poor. Now let us return to the special problem of inflation and those who become unprotected as a result of inflation. This is entirely separate from the problem of the poor.

Changes in the Size of the Melon

Without Controls

In the absence of controls, moderate inflation does not reduce the size of the melon (national total of economic production). In fact, it has a stimulating effect on production. Even during violent inflation, as in Germany during the early twenties, production seems to run at a high level for a long period. At a later point production is retarded.

With Controls

The inevitable result of controls, on the other hand, is to reduce the size of the melon because of interference with production. In other words, controls clog the economic pipe lines and thus tend to make everyone charter members of the unprotected or disadvantaged class. How, then, can it fairly be said that controls are necessary to protect the unprotected, when without them there would not be this wholesale unprotection? A comparable line of reasoning would be to demand protection by quack doctors who busy themselves spreading epidemics.

Controls raise such havoc in this country because ours is such an intricate economic machine. This intricacy makes possible our high standard of living, the highest in the world. Our system may be compared with the intricate network of water pipes underlying a great city. We all know how one or a few breaks or clogs in these pipe lines will affect the city's water supply; it may be left without water, except that carried in pails. When controls break our economic pipe lines the same thing happens. It drives us back toward self-sufficiency, probably no more than one-fifth of our present level of living. Some will observe that no such dire disaster occurred under wartime controls; I would answer that true prices were not held, that these controls were in a large measure either ignored or evaded —and that was the salvation of the situation.

As to how controls affect production, consider automobiles, for instance. They are a complex assemblage of many, many parts. Lack of even one small part makes all the rest of it useless. Automobiles cannot and will not be produced under enforced controls. I believe every automobile producer knows that, and will tell you so, privately. The public must either be told convincingly that this is true, and why it is true, otherwise they are likely to have to learn the hard way and go without cars. And who gains by that process? The poor as well as the millionaires would go without cars, because in this country even the poor have the best jalopy they can afford, and will even go without "adequate housing" in order to have a car—one that will run.

Another good illustration of the effects of controls high-lights the news these days. I refer to the wheat situation. Remember that wheat is too valuable as human food, even in this prosperous nation, for much of it to be used as livestock feed in normal times. Remember, too, that the human feeding power (calories) of grain is reduced by 85 to 98% when fed to livestock. In spite of an all-time record wheat crop in this country last year, added to an unusually large carryover, we now find ourselves in danger of being short of wheat for bread. Why? If you could, for instance, sell a bushel of wheat for no more than $1.50 as wheat, but you could get $1.75 for it in the form of the livestock products it will produce, which way would you sell it? That is what they did. More wheat was fed to livestock than was sent abroad during the first six months, and the amount was three-fourths as much as we ate, ourselves. The basic cause of the trouble was price, and it is not yet corrected nine months after harvest. Heartrending appeals for wheat to send abroad, orders about milling percentages, and all the other similar devices do not change existing price relationships, the heart of the problem. Nor will they bring back the wheat that is gone. So we are asked to continue, in the interests of the poor for whom bread is the staff of life, these devices for protecting them. I would say, instead, that price controls could be the cause of widespread hunger in urban areas of this country, a land of plenty.

Here is another illustration to show how people spend untold time trying to get what isn't there, at bargain ceiling prices. When leaving my hotel a few weeks ago, I traced a line of people to a little hosiery store; 427 people in line at 8:30 a.m. and about 50 still in line at 1:00 p.m. Probably it takes only a few minutes of work to make a pair of nylon hose, but people were standing in line *hours* to buy a pair. Is that the way to protect the unprotected?

These and countless other illustrations show how controls reduce the size of the melon, both in "production" and in "distribution." With a smaller melon, the average size of the pieces must be reduced. Controls create emergencies, and the resulting fear is used to extend controls in the name of protection. Controls, in other words, breed unprotection on a wholesale basis rather than protecting the unprotected.

So much for the size of the melon.

Changes in the Division of the Melon

Aside from the size of the melon, inflation affects the way it is sliced. Who becomes unprotected for that reason? I am referring now to selective, not wholesale, unprotection.

If everyone's income and the worth of their savings increased in exact proportion as inflation proceeded, no one would lose in buying power. For instance, if they all increased ten per cent while the prices of everything increased ten per cent, everyone could buy what he could before. People would merely have to carry more money. This would hold true for inflation of 10%, 100%, or 1,000,000%. But that is not the way it works. As inflation proceeds, some persons are shorted in the size of their pieces; they become "unprotected" while others benefit.

Since 1939, the income of the average family has about doubled. In other words, anything that has not doubled in price is now cheap by comparison, for the *average* family. Any family whose income has gone up less than this (double) has lost in bidding power for what is available; that family has become one of the "unprotected."

Items thus adversely affected by inflation include savings in the form of money, or its equivalent in the many forms that are loaned, and also the group of items like pensions, contracted items, and slow-moving salaries and wages. How this group is affected is illustrated by the plight of professors in China during its recent inflation. From 1937 to 1944, their pay increased 58 times. How could they be called "unprotected," with this increase? Because the cost of living rose 515 times, which left them in a position equivalent to a reduction in pay from $2,000 to a little over $200 a year.

Note, however, that whereas some *items of income* lose out in the inflation race, we are concerned with *persons*. The two are not the same thing. Any person's income may be one item, or a mixture of items. The number of possible combinations are as numerous as the blades of grass on the prairie. In order to identify the disadvantaged persons as individuals, it would be necessary (though I am *not* recommending it) to collect detailed information about the income of every person in this country, and to do so continuously (because of constant change). Then we would find that both rich and poor are among those disadvantaged by inflation.

The control authorities, apparently conceding the impossibility of such continuous personal interview, attempt wholesale protection by giving everyone the controlled price and the controlled wage. The gambler and the speculator in Florida real estate, along with the widow on pension, can buy goods at the same controlled price (if they can find them). And the same rise in wages is allowed, more or less, to everyone, despite the aroma of fairness introduced by the name "fact-finding boards." These boards perform the complicated mathematical feat of adding together a wage offer and a wage demand, dividing the total by two, and arriving at the prescribed answer of 18½ cents.†

These wholesale devices for helping the unprotected fail in their avowed purpose. Their operation can be compared to a philanthropist who would aid the children at a sports event to see over the shoulders of the taller grownups in front; so he gives everybody, tall and short alike, a two foot box to stand on. Or it can be compared, also, to a community medical project which gives colored water to everybody rather than real medicine to the one small boy who is sick.

Why do we fall into the trap of reasoning that everyone can be protected this way? I believe it results from the confusion between money and real welfare. We forget that money is the means to the end, and not the end in itself, and so are enticed by schemes to raise the incomes of everybody and reduce the cost of things everybody buys. Even with prices at zero and incomes at infinity, we could have no more to consume than what is produced. We cannot eat the money, and even for purposes of wearing apparel and housing it has serious disadvantages as compared with other materials in common use. This is regrettable, since money is so easy to produce.

So much for the question of the division of the melon, as affecting people differently during inflation.

Those Who Rent

The current housing situation makes of those who rent a special group, supposedly in need of protection. I am giving rents this emphasis because nearly everyone I know—even including most of those who understand why controls will completely stop the production of automobiles when the production of one small piece of the carburetor is interfered with —says: "Yes, but rents—; I agree as to the wisdom of taking off these other controls, but we need rent control under present conditions." So let us take a look at that problem.

According to the official figures, rents are now only about half their prewar burden on the average family because rents have gone up little and incomes have about doubled. This point has a great deal to do with the critical housing shortage, and we are likely to forget the importance of this demand side. When anything is offered at a bargain, there will always be a critical shortage of it. The shortage will disappear only when it is no longer a bargain.

Suppose rents were no burden at all—housing was free. How much space would people use? One family might try to use all of it, except for the costs of upkeep, and there would then be forty million too few houses and apartments in this country. Strange as it sounds, the "unprotected renter," if he wants a place to live, is best served by a free market. A controlled market, with rents too low, allows the protected to use too much space and crowd out the unprotected, as between renters; the inflation gambler will crowd out the widow on pension.

The assumption is always made that the landlord is protected and the renter is unprotected during inflation. This is not necessarily true. He may have less wealth than his renter; I know of many such instances. And under present conditions he is being penalized about half in his share of the nation's dollar income. Is it a crime for the landlord to share equally in the doubling of the money that is floating around? Has it become a crime to own property in this country, too?

This brings us to the supply side. With low rents and high costs of building and upkeep, who

†There is some difference of opinion on the derivation of this figure. Some say it can be found by subtracting 15% from 33%.

can build the additional houses for rent? Under these controls, the government is the only one in position to do so, because it alone has the legal power to send others a bill for the losses; it now proposes to violate its own ceilings, and to send us a bill for the difference. Who is rendered protection by that process?

So much for the plight of the renters, and the housing situation.

Summary (Re: "Who Needs Protection"?)

We have considered, from several angles, the question of "who needs protection." It seems that from all these angles, the argument about the unprotected is merely window dressing for the real issue. The real issue is whether we shall continue to expand these practices of National Socialism (of our own brand and label, of course).

Controls reduce production and, therefore, generate wholesale unprotection. Price and income benefits to everybody are protection to nobody. And the problem of the poor, neither now nor newly critical, is made worse by the adverse effects on production. Controls do, of course, offer a form of protection to some politicians and governmental employees.

In thinking of the government as a device for protection, we must, I think, consider briefly what government should and should not try to do. It should punish those who practice fraud, predation and violence. In this the government can perform an important function, but it has no mysterious capacity in that respect. It merely specializes in the job. It cannot prevent crime; it can only punish those who practice it, in such a way as to discourage others or even sometimes eliminate the practitioner. All this we could do as individuals, but we prefer to hire able specialists like J. Edgar Hoover to do the job for us.

How do wage and price controls fit into this pattern? The presumption in this plan is that any wage or price arrived at in a free market or by free bargaining may be of a criminal nature. We treat them as such under controls, and punish the offenders. By the same token I would be rendering my country a service in its fight against inflation if I used fraud, predation or violence to force my neighbor to sell his wheat below what he can get elsewhere. Is not the government itself, by these controls, practicing or encouraging the very things it is supposed to be protecting us against? I submit that a government may hire a non-specialist to render punishment for what should not be considered as a crime.

And the government should also protect us against instability in our national currency. As has been pointed out, (by Mr. Temple) these controls fail in that purpose, too. The panicky attempts to conceal the failure perpetuate and enlarge it.

All this may suggest what further might be said about the claim that wage and price controls protect the unprotected.

How Wage and Price Controls Operate

Our inflation problem, and the way wage and price controls attempt to solve it, is about like this. Here is a dollar bill, a sort of warehouse receipt entitling me to some of the goods and services of this country. The number of these in the hands of the public is about 100 billion (dollars) more than before the war, but the warehouse is empty. So, if we were to try to use them, we would find them to be worthless. Just paper. We call it wealth and savings, but we should think of it, instead, as the increased government debt that created it. These dollars are lying quietly at the moment, but they are like a sleeping volcano that may suddenly come to life.

Our current operations (income and expenses) add to the problem, about like this. Let us say that $6 represents people's incomes remaining after personal taxes and normal savings. But we spend only $5, leaving $1 as an economic orphan. So we are daily issuing more warehouse receipts than there are goods going into the warehouse (in addition to all the dollars that have accumulated).‡

What can be done about all these accumulated claims, and the continuing excess? We can issue fewer warehouse receipts, or reduce the amount of goods that each will buy ("higher prices"), or declare some of the warehouse receipts invalid ("price control").

The policy of price control causes endless problems and confusion. It makes people spend unproductive time standing in line. It generates black markets and all sorts of premiums for dishonesty and shady practices. It interferes with production and reduces the goods in the warehouse while increasing the warehouse receipts. This generates the inflation it was supposed to prevent (as Mr. Temple has so well explained).

Reduced production in time of want makes a hot seat for the control agency to sit on, so it has been insulated by the use of subsidies which are an idea borrowed from the totalitarian regimes of the ancient, medieval, and recent past. First a wartime expedient, subsidies have become a peacetime "necessity," ever increasing. We subsidize abroad and at home. No one seems able to tell us the total amount of subsidies now in effect, including both the direct and the indirect. But one columnist from Washington suggests that if subsidies planned by the Administration for the next year were put into effect, in addition to what we have, the total would be boosted to somewhere between 12 and 15 billion dollars, which adds further to the pile of useless warehouse receipts when we are supposed to be fighting inflation.

I have here a little piece of paper costing $6.33. It entitles somebody to some butter, cheese, milk, ice cream, beef, lamb, sugar, beans, corn, cotton, peanuts, tobacco, flour, soybeans, wool, and goodness knows how many other things. It also entitles me to a ride on a railroad (a "railroad ticket"). As nearly as I can figure, $4.40 of the full amount represents the cost of the ride and the other $1.93 covers the other things (taxes). The ride is mine and I pay for it as such; the other things I may or may not get, though I must pay for them in order to ride on the railroad. This applies to a millionaire and a poor man alike; both, whether they ride for pleasure or to work, are prohibited by our government from buying the ride at its cost without also paying for a part of somebody's grocery bill (subsidies). Under guise of a program for helping the poor and the unprotected, we are as individuals forced to invest in a type of economic organization common in the Old World where the poor have for untold centuries remained poor.

What the government is doing to help the unprotected is comparable to a project to flood the country with water, to be followed by another project to build protective walls around every home, farm, and factory, and to hire guards to plug the innumerable leaks in the walls. Jefferson said: "Were we directed by Washington when to sow and when to reap, we should soon want bread." The same sort of statement could well be made about wage and price controls. The government cannot successfully guide these detailed phases of our intricate economic system any more than it can steer everyone's car from Washington.

We may be seeing a test of the wisdom and foresight of Madison, who warned that a common passion would come to sway the majority in a democracy; that they would quickly force the ruler to become a tyrant; that a swift and violent death would be its fate.

Perhaps our descendants will look back on these economic experiments, which we are discussing, and ridicule them as we now ridicule the pagan beliefs of the ancient world where tribute to Zeus and Jupiter was confused with production, and people starved.

Shall We Discontinue Controls Now or Later?

If these controls are unwise, they should be discontinued *now*. If they are wise, they should be continued forever. The question is one of *type*, not of degree or of time. In my opinion, we should junk the entire control machine *now*, not just keep changing drivers or replacing nuts here and there.

Those who support continuation of controls fall into two groups: (1) those who favor the basic idea of controls, and (2) those who are being dishonest in supporting something they know is unwise.

Some profess to be opposed to controls after July 1, 1947, or some other future date. A person either believes in these controls, fundamentally, or he does not. The calendar has nothing to do with the question. A control which is judged to be unsound in 1960, or 1950, or July 1 of 1947 is also unsound on July 1 and March 21 of 1946. And if the idea is basically unsound for one person, one industry, one commodity, it is unsound for another.

Suppose we were discussing the question of robbery. Some might take the position that robbery should be approved, and some that it should be condemned. What would you think of those who professed opposition to robbery, but not until after July 1, 1947? You might suspect such persons of having in mind a little project which they hoped to have completed by that date. What would you think of those who professed in the belief that robbery should be condemned, but who said their minds had been changed by the results of a public opinion poll?

I cannot stress too strongly my belief that we should not temporize with this issue. Let me repeat; the question is one of *type*, not of degree or of time. It is no time for those who believe in economic freedom to weaken in the face of charges of greed and selfishness, or other accusations. If we abandon what is right, the rewards for being right will abandon us. Truth pays no attention to expediency, nor to mob psychology.

‡Survey of Current Business, January 1946, p. 4. In the final quarter of 1945 at annual rates: Income payments, $154.5 billion; disposable income, $135.2 billion; consumer expenditures, $107.0 billion; net savings of individuals, $28.2 billion. Normal rates of saving might be somewhere between the $6.0 billion of 1939 and $10 billion which would be about 9% of disposable incomes without any excess savings.

Export-Import Bank Credits to China

The Board of Directors of the Export-Import Bank has given preliminary authorization in principle to five credits to China, totaling $33,793,750, William McC. Martin, Jr., Chairman of the Board, announced on March 19. The details of the proposed credits are subject to negotiation, which is expected to be completed in the next few weeks. The credit lines will enable China to purchase in the United States a limited number of ships, railway and coal-mining repair materials and equipment, and auxiliary power plants, according to Mr. Martin, who said:

"These credits have been arranged after careful study to hasten the reconstruction of China's transportation and power systems which are so fundamental to the basic task of reconstruction. The credits will provide only for partial restoration of damaged equipment and do not furnish materials for new development. The credits will be of assistance in the restoration of China's foreign trade with the United States and other countries."

The individual credits, which vary somewhat as to terms, are:

1. Ten, N-3 SA-2 coastal cargo vessels to be purchased from the U. S. Maritime Commission, $4,243,750; 2. Sixteen coastal cargo vessels previously operated by the Army Transport Service, 11 of which are privately owned and five owned by U. S. A., $2,600,000; 3. Railroad repair equipment, $16,650,000; 4. Auxiliary steam power plants, 10 units, 5,000 kw., $8,800,000; 5. Coal-mining equipment, $1,500,000. A grand total of five credit lines, $33,793,750.

The announcement issued by the Bank also says:

"The ship credits from the Export-Import Bank will provide for about 67,500 tons of coastal and river shipping compared with China's present available coastal and river tonnage of about 183,500. Before the war, China's power-driven coastal and river fleet was approximately 370,000 tons. The additional ships will cover, therefore, about one-third of China's apparent loss of shipping during the war.

"Approximately 2,000 miles of railroad line, out of a total of 9,000 miles, were substantially damaged or destroyed. At least 1,000 miles of track must be restored for the emergency movement of coal, food and clothing. The present coal famine in Central and Eastern China is caused primarily by broken lines of communication. In most cities the coal shortage has forced utilities to operate on greatly reduced schedules. The Export-Import Bank credit will provide approximately 570 miles of track. UNRRA is also providing rails and other railway equipment for a little less than 500 miles of track. From both programs, China will be able to re-lay about one-half of her destroyed lines.

"The full extent of damage to the coal mines is not known. It is estimated that about one-third of China's prewar annual production of 30 to 34 million tons has been lost, caused both by mine damage and interrupted communication. The present Export-Import Bank credit will provide for certain general repair items.

"The 10 auxiliary power plants of 5,000 kw. are to serve as a general emergency pool, as they can be placed inside larger plants where required, or operated separately to provide emergency power independently. The total 50,000-kw. capacity will replace about one-fourth of the power damaged during the war.

"The terms on the credits vary somewhat because of the differences in type of equipment to be purchased. Loan to be made for 75% of the purchase price of the N-3 ships will run for 20 years with principal to be repaid in semiannual instalments with interest at 3½%. China will make a down cash payment of 25%. These terms are equivalent to those established by the Ship Sales Act. For the other cargo ships, the loan will mature in 15 years, with principal to be repaid semiannually during the last 10 years. Interest is at 3½%.

"Terms on the railroad and power equipment loans provide for repayment of principal in 30 years, with repayments in semiannual installments during the last 25 years. Interest is at 3%.

"Loans for the purchase of coal-mining equipment run for 20 years, with principal repayment in semiannual instalments during the last 15 years. Interest is at 3%."

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March 25, 1946

ADVERTISEMENT ADVERTISEMENT ADVERTISEMENT

SOUTHERN RAILWAY COMPANY

Fifty-Second Annual Report for the Year Ended December 31, 1945

Richmond, Virginia, March 25, 1946.

To the Stockholders of
SOUTHERN RAILWAY COMPANY:

The Board of Directors submits the following report of the affairs of the Company for the year ended December 31, 1945, which is the annual report it is contemplated formally to present to the stockholders of the Company at the annual meeting due to be held on May 21, 1946.

Foreword

With the year 1945, there ended a cycle of six years, 1940 to 1945, inclusive, which may be bracketed and termed the period of the country's preparation for war, of the war itself and of the partial transition to post-war conditions.

Part I of this Report will state the facts and figures concerning the year 1945, and Part II will set out briefly what the Company has accomplished with the increased revenues attributable to the "war period," 1940-1945, inclusive.

I.

The Year 1945

Operating Statistics

After successive increases in Operating Revenues, year by year, from $105,905,395 in 1940 to $260,978,544 in 1944, the Revenue from Operation of the railroad in 1945 declined to $247,536,833, a decrease of 5.15% from 1944.

The volume of business handled and the receipts therefrom, compared with the previous year were:

	1945	1944
Freight moved (tons)	63,605,131	65,587,514
Average distance moved (miles)	235.97	244.46
Ton miles	15,009,130,558	16,033,255,370
Average revenue per ton mile	1.162¢	1.165¢
Total freight revenue	$174,397,392	$186,821,986
Number of passengers	13,465,541	13,472,869
Average journey (miles)	193.51	199.46
Passenger miles	2,605,756,203	2,687,308,323
Average revenue per passenger mile	2.201¢	2.206¢
Total passenger revenue	$57,361,906	$59,270,726

Freight revenue for 1945 amounted to $174,397,392 and passenger revenue to $57,361,906, declining 6.65% and 3.22%, as compared with 1944, respectively.

The proportion of passenger revenue to total revenue remained in the relatively high ratio of 23%, this more-than-normal proportion of passenger revenue being attributable, as in 1944, to the extraordinary movement of the armed forces during the period of hostilities earlier in the year and at an accelerated rate in the demobilization period. During 1945 the Company ran 8,441 special and extra sections of regular trains handling armed forces alone, carrying thereon 1,396,184 members of the fighting forces, and on regular trains the Company carried a total of 12,069,357 passengers, more than half of this number being service personnel.

The decline in freight revenue, as compared with that received in 1944, began to be felt soon after the close of hostilities with the Japanese in August 1945, and may be attributed in large part to the cessation of the movement of munitions and other high-class long-haul heavy-loading war commodities; *the volume* of freight traffic for the entire year, however, not having declined as sharply *as freight revenue*, with the consequence that transportation costs could not be reduced in proportion to the decline in revenue.

Operating Expenses for 1945 amounted to $173,945,280, an increase over the year 1944 of $17,033,799, or 10.86%. Of this total $159,711,715 may be termed the *ordinary* Operating Expenses for the year, their increase of 1.78% over the corresponding figure for 1944 being due to the relatively small decline in the *volume* of freight and passenger business for the year, coupled with an increase in the cost and use of maintenance materials, and increases in the unit costs of labor during 1945.

The non-recurring extraordinary charge to Operating Expenses amounted to $14,233,565, and was the unamortized remaining cost at the termination of the emergency period of facilities previously certified to the Company as necessary in the interest of National Defense, divided between $380,002 charged to Maintenance of Way, and $13,853,563 charged to Maintenance of Equipment.

For the year 1945, Railway Tax Accruals, including the accruals for Excess Profits Taxes, amounted to $43,044,685, as compared with $66,641,178 for 1944. The reduction is attributable to the combined effect of less Operating Revenues with greater Operating Expenses. Contributing to the latter was the charge out of the unamortized cost of National Defense Projects, just mentioned, which produced a tax reduction of $11,514,827, of which $7,314,827 was applicable to the year 1945, and approximately $4,200,000 to prior years. *Despite the decrease, taxes took more than 17¢ out of every dollar of gross revenue.*

The comparative ratios of the several categories of Operating Expenses, expressed in the number of cents out of each dollar of revenue, were as follows:

	1945	1944
Transportation	30.58¢	28.69¢
Maintenance of Way	12.75¢	11.74¢
Maintenance of Equipment	22.32¢	15.70¢
Traffic expenses	1.29¢	.99¢
General expenses	2.22¢	1.90¢
Incidental expenses	1.11¢	1.10¢
Totals	70.27¢	60.12¢
Taxes	17.39¢	25.54¢
	87.66¢	85.66¢

After providing for the expense of operation, taxes and equipment and joint facility rents, there was brought down for fixed charges and for other corporate needs 10.83% of the 1945 gross revenue, as compared with 12.80% in 1944.

Thus Net Railway Operating Income showed for 1945 its third successive decrease, and illustrates the difficulty of controlling expense in a period of heavy taxation, ascending prices and increases in cost per unit of productivity.

Net Income

Net income (after charges and taxes) for 1945 amounted to $16,298,721, as compared with $22,261,814 for the previous year.

The Company's fixed charges were covered 2.19 times in 1945, as compared with a ratio of 2.55 times in 1944.

After dividends of 5% on the Preferred Stock, the balance of net income in 1945 was equivalent to $10.24 per share of Common Stock, as compared with the five prior years, as follows:

Year	Net Earnings Per Share of Common Stock
1940	$ 3.35
1941	12.61
1942	23.41
1943	15.81
1944	14.84
1945	10.24

Use in 1945 of the Company's Financial Resources

The major items for which the Company used its treasury resources in 1945 (after payment of its running expenses, taxes payable during the year and all fixed charges), were as follows:

(1) Expenditures of treasury cash for capital improvements to the plant (road and equipment) amounted to $15,871,428, an increase of $3,607,127 over corresponding expenditures for 1944.

(2) Disbursements in the continuing program of "debt retirement" amounted in 1945 to $16,426,834, in addition to a $2,000,000 purchase of bonds of a subsidiary.

(3) Dividends aggregating $6,894,600 were paid during the year, at the rates shown below.

(4) There remained on hand on December 31, 1945, (a) U. S. Tax Notes in the principal amount of $46,160,000, as reserves against accrued tax liabilities of $40,139,324, and other corporate needs, and (b) cash of $39,664,117, as shown in the balance sheet, the latter being reducible by items which were not cleared through the banks as of December 31, 1945.

Dividends

Dividends of 5% on the Preferred Stock, and of $3.00 per share on the Common Stock payable in quarterly installments of 75¢ each, were continued.

Operations and Maintenance

During the war years, all of the Company's operating facilities and manpower were employed in handling the heavy war load, both freight and passenger. During that period it was not a question of how much traffic could be secured but of how much the Company's facilities could handle. Competitive efforts were largely laid aside. New passenger equipment was unobtainable and materials and supplies were limited to essential needs.

These conditions continued during the first quarter of 1945, when signs of the cessation of hostilities began to appear, then came, abruptly, the need for adjustment to the highly competitive peace-time era to follow, so that beginning with the Summer of 1945, every effort was directed toward putting the railroad in position where it could compete successfully for peace-time traffic.

This required many adjustments and refinements in transportation and maintenance; in transportation, because more modern power, better equipment and better schedules would be needed, and in maintenance of way and maintenance of equipment because a higher standard was necessary to attract and hold competitive traffic.

Most important was the fact that wage costs and materials and supply prices reached a new high and it was imperative to reduce man hours and to hold to a minimum the use of materials. Added to the problem of controlling operating costs was the fact that a large volume of freight traffic had to be handled at a drastic reduction in the average revenue per ton and revenue per car. For example, immediately after "VJ" Day, the average freight revenue per car dropped from nearly $90.00 to approximately $79.00, due to the sudden stopping of munitions and other highly remunerative war supplies, as mentioned earlier in this Report.

A few examples of the results of the Company's efforts in 1945 to meet this problem were:

With the purchase of Diesel power, light steam power in substantial quantity was set aside for sale or other disposition, thereby obviating considerable maintenance; heavy repairs were effected on a large number of cars, and others, obsolete, were scrapped; a Diesel running repair shop was built and the Company's plan of modernizing its mechanical shops was continued and expanded.

Several fast freight Diesel-operated schedules were inaugurated between all the more important points on the System, and a program was put into operation for more expeditious handling of cars in terminals, both in through service and in the placement and despatch of loads for consignees and shippers.

The programs of improving shop machinery and practices, and of installing labor saving equipment, ditching and other roadway machines, and highway trucks used by the Maintenance of Way Department, were augmented; the long-life tie installations were continued with consequent saving in future maintenance, and a comprehensive program of improving communications, so vital to efficient operation, was vigorously pursued.

To keep step with the necessity of economy in the transition period and for the future, accounting practices and procedures were "streamlined," and progressive techniques were applied in 1945 to the ticketing and accounting for the Company's passenger traffic.

New Rail

During the six years, 1940 to 1945, inclusive, there have been laid new rail as follows:

Year	New Rail Laid
1940	15,355 tons
1941	20,925 "
1942	38,787 "
1943	40,733 "
1944	47,171 "
1945	50,659 "

Orders for 1946 have been placed for 40,000 tons of new rail.

New Equipment

During 1945 there were received (in addition to the two 5400 Diesel-electric freight locomotives delivered in February, 1945, as mentioned in last year's Report):

Seven (7) 1000-horsepower Diesel-electric switchers and four (4) 44-ton Diesel-electric switchers, which were paid for in cash; and three (3) 5400-horsepower Diesel-electric freight locomotives, approximately 75% of their cost being financed by means of 24 months' paper at 1⅜% per annum.

Because of labor difficulties of the manufacturer, delivery has been deferred on the six 4000-horsepower Diesel-electric passenger locomotives referred to in the 1944 Report, but they are expected shortly. Notes to be payable over a six-year period with reference to approximately 75% of their cost have been sold, under competitive bidding, again on the interest basis of 1⅜% per annum.

In addition, there are now on order:

14—1000-horsepower Diesel-electric switchers,
16—6000-horsepower Diesel-electric freight locomotives, and
1000—50′ 6″ 50-ton steel sheathed automobile box cars,

delivery of all of which is expected during 1946.

II.

The Six Years 1940-1945, Inclusive

After the lean years of the 1930's, the Company entered the period of war engendered activity, commencing in 1940, needing capital improvements and additions to its roadway and equipment, its track particularly needing installations of new rail, purchases of which had been reduced during the depression; with a large indebtedness to the Reconstruction Finance Corporation; without a financial back-log; and with its fixed charges high in relation to earnings of the depression period.

During the six-year period, 1940-1945, inclusive, progress has been made toward improving these conditions. Within the six years the Company has been enabled (after paying all the thousands of items comprised in operating expenses — including unprecedentedly large sums to the taxing authorities):

(a) To put back over $62,250,000 into capital improvements to enhance the efficiency of the property;

(b) To accomplish "debt retirements" in excess of $91,000,000, including the acquisition or retirement of interest and dividend bearing securities on which the Company was obligated, the retirement of its R. F. C. indebtedness (a portion of which was repaid prior to January 1, 1940) and the acquisition of and investments in bonds of subsidiaries; and

(c) To disburse dividends to the stockholders aggregating nearly $20,000,000 between November 2, 1942, and December 15, 1945, the first since 1931.

There remains at December 31, 1945, $155,309,221 in the credit balance in the Profit and Loss Account, largely invested in property, *an increase therein of $79,831,960, as compared with December 31, 1939.*

Capital Improvements

As just shown, during the six-year period, there have been put into and on the property capital improvements costing the Treasury over $62,250,000.

Additions to roadway and structures have accounted for $23,680,906 of that amount.

These additions and betterments include, together with many thousands of smaller items, the capital portion of the cost of installing new rail and other track material in the amount of over $7,100,000; new industrial tracks aggregating $1,970,000; capital charges incident to the continuing program of filling in trestles, during the six years there having been eliminated more than ten miles of wooden trestles, at a capital cost of $4,353,000, including the installation of 16 steel bridges; the erection of new or improvement to existing structures, including stations, office buildings, coaling facilities and Diesel shops, at an aggregate capital cost of $2,885,000; the installation of additional automatic train signal and communication apparatus at an aggregate capital cost of more than $653,000; and the expenditure of over $2,714,000 for new shop machinery and new roadway machines, including mechanical tie tampers, bulldozers, automobile trucks, and many other mechanical devices for on-line rail cropping and other renewal operations.

Between 1940 and 1945, inclusive, the Company's expenditure from the Treasury for additions or capital improvements to its rolling stock have aggregated $38,588,200.

Within these years the Company has acquired and has placed in service the following new equipment:

8782 New Freight Cars
4 Diesel-electric 44-ton Switch Engines
7 Diesel-electric 600 or 660-horsepower Switch Engines
33 Diesel-electric 1000-horsepower Switch Engines
3 Diesel-electric 2000-horsepower Road Passenger Locomotives
5 Diesel-electric 4000-horsepower Road Passenger Locomotives
12 Diesel-electric 5400-horsepower Road Freight Locomotives
6 Modern streamlined passenger trains, being the equipment for "The Southerner" and "The Tennessean".
25 Steel Baggage-Express Cars.

During this period, the aggregate of the deferred payments on account of rolling stock, represented by the Company's Equipment Trust or Conditional Sales obli-

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gations, did not, however, materially increase, the Company owing under this category as of December 31, 1939, $24,059,000, and $26,707,759 at December 31, 1945.

During the six-year period ending with 1945, the Company abandoned 169.50 miles of track.

The Company thus enters the post-war period, commencing with 1946, conscious of having performed its patriotic task of providing the requisite facilities to serve the country's war-time needs. Its road and equipment are in adequate condition and volume, it is confidently believed, to handle the coming business of the post-war era—except for the need of new passenger equipment of modern design, the purchase of which is in contemplation.

The Reduction of Debt and Fixed Charges

During 1945, the Company continued its program of reducing debt, with the consequent lightening of its burden of fixed charges.

In addition to acquiring the balance outstanding of the Mobile and Birmingham 5's and 4's which matured July 1, 1945, in the aggregate principal amount of $1,800,000, and acquiring or providing for the redemption of various other bonds which the Company was obligated to service, some of them having been acquired by a subsidiary, in the additional principal amount of $461,000, the Company during 1945:

(a) Jointly with the Louisville and Nashville Railroad Company, called and paid off the total issue of the L&N-Southern Monon Collateral Joint 4½ Bonds, due July 1, 1952, Southern's proportion so retired being the principal amount of $5,892,500;

(b) Acquired and cancelled $7,277,000 principal amount of its Development and General Mortgage Bonds, due in 1956, thereby reducing this issue, which originally stood at $111,333,000, to $71,877,000 at December 31, 1945, and reducing the interest payable on the balance outstanding, composed of 4's, 6's and 6½'s, to the average rate of 4.89%;

(c) Exercised on December 28, 1945, its option to purchase as of March 1, 1946, the stamped or guaranteed 9% stock of The Atlanta and Charlotte Air Line Railway Company at the option price of $250 per share, of which there were 15,321 shares, and on the same date offered to pay the same price for the unstamped or unguaranteed portion thereof, namely, 1179 shares, thereby to effect an annual reduction in Company's fixed charges of $157,000; and

(d) Acquired $2,000,000 remaining principal amount of the Georgia Southern and Florida Railway Company's First Mortgage 5% Bonds, due July 1, 1945, after that Company, a subsidiary, paid $2,000,000 on account of the $4,000,000 maturity.

These items aggregate in face value or principal amount $18,780,000 of obligations acquired or provided for in 1945, exclusive of equipment trust installments paid during the year.

The Company's fixed charges, on an annual basis as defined by the Interstate Commerce Commission, less income from securities of its leasehold estates owned by the Company, including the pending reduction from the acquisition of The Atlanta and Charlotte Air Line stock, were approximately $11,900,000 at December 31, 1945.

On the same basis, the fixed charges were $16,500,000 on December 31, 1939, there having thus been effected a reduction of $4,600,000 a year, or 27.87%, in the Company's fixed charges in the six-year period.

In addition, between January 1, 1941, and December 31, 1945, there were cancelled and retired 22,484 Southern Railway-M&O Stock Trust Certificates, reducing the number of Certificates outstanding from the original amount of 56,702 to 34,218, and reducing the miscellaneous income charge thereon to $136,872 annually as of December 31, 1945.

Funded Debt

The table of funded debt at the end of 1945 showed the following comparisons with 1944 and 1939:

	Dec. 31, 1945	Dec. 31, 1944	Dec. 31, 1939
Funded Debt	$194,650,500	$207,820,000	$241,499,500
R. F. C. Notes	----------	----------	27,041,700
Leasehold Estates	52,923,600[1]	52,929,600[2]	53,154,000
Equipment Trust Obligations	26,707,759	30,666,658	24,059,000
Totals	$274,281,859	$291,416,258	$345,754,200

[1] Includes $8,082,000 of Bonds acquired by the Company or its subsidiaries since January 1, 1940.

[2] Includes $5,000,000 of the Atlanta and Charlotte Air Line Second Mortgage 3¼'s owned by the Company.

Future Maturities

Reserves have been set aside for the acquisition of the Georgia Midland 3% Bonds outstanding in the principal amount of $1,650,000, maturing April 1, 1946.

Between 1946 and the year 1956, there occur the following maturities of bonds on which the Company is liable as maker or endorser (exclusive of minor joint terminal issues):

Year	Issue	Principal Amount
1949	Atlantic & Yadkin 4's	$ 1,500,000
1951	Southern's St. Louis Division 4's	12,474,000
1953	New Orleans Terminal 4's	14,000,000
1956	East Tennessee & Virginia Consol. First 5's	12,770,000
1956	Development & Gen. Mortgage Bonds (originally $111,333,000)	71,877,000

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Industrial Developments

The war years, 1940 to 1945, did not interrupt, but on the contrary, contributed to the long term upward trend toward greater "industrialization" of the South, the region served by the lines of the Company and its affiliates, known as Southern Railway System.

Cotton textiles, rayons, iron and steel, aluminum, paper manufacture, and tobacco—these great industries, among others, played their indispensable part, in Southern territory, in the collective effort of the country which contributed so much to the winning of the war. Their prospects of continued activity and further increase have not been dimmed by the ending of the war, but are enhanced as 1946 begins.

In 1945, the cotton growing states consumed 88.4% of the total cotton consumed in the United States, and further expansion is in definite prospect.

The rayon industry, after record breaking production in 1945, has announced definite expansion plans in the territory, including the construction of a new cellulose acetate and spinning plant of tremendous capacity, to be served by the Company's lines; and the construction of an important nylon plant in the Company's territory is in immediate contemplation.

Iron and steel capacity in the South was expanded during the war years by the investment, governmental and private, of upwards of $270,000,000 in new facilities, which should result in a permanent increase in the numbers of jobs and in greater steel production when the cutbacks, due to cancellation of war contracts, have been absorbed, and reconversion to civilian use accomplished; and the same facts are apparent with reference to the tremendous aluminum capacity in Southern territory, as constant search for new industrial uses of the lightweight metal is intensified.

The prospective growth of the wood-pulp, wallboard and paper industry in Southern territory is also impressive, being evidenced, for example, by the imminent construction of two additional plants to be served by Southern System lines, the prospective initial investments in these new facilities being estimated at more than $16,000,000.

While these major industrial developments are heartening to those who have staked their future in the South, as is the kindred expansion in prospect in automotive manufacture, lumber, chemicals, tobacco and its products and in the great fields of agriculture and coal, the most hopeful sign of future development in the territory is the many hundreds of applications for new industrial side tracks which nearly "swamped" the capacity of the engineering department of the Company as soon as the war ended, evincing the determination of "small business" to find its place in the sun and in the growing South.

During 1945, 178 new traffic producing industries were established on the lines of the Company and its affiliates; and 65 existing establishments were enlarged.

Public Relations

With few exceptions the relationship between the Company and public authority, and with the Company's customers, have been cordial and helpful—and are gratefully acknowledged.

The Company continued its advertising in on-line newspapers, in farm and state teacher journals circulated in the South, and in nationally-circulated business magazines and financial periodicals, with a total circulation of 94 million.

In the locally-circulated advertisements, emphasis was placed on the progressiveness of the Company and the vital part it occupies—as a transportation agency, taxpayer, job provider, and customer of local business—in the economic life of the communities along its lines.

The nationally-circulated advertisements continued to be built around the basic theme of "Look Ahead—Look South," and were designed to create a nation-wide awareness of the territory served by the Company, its wealth of natural resources and advantages, and its attractiveness as a location for industries seeking opportunities for greater growth and prosperity.

The Board records, with deep regret, the death on November 1, 1945, of their esteemed colleague, John K. Ottley.

Conclusion

The Company has given in this Report an account of its stewardship during the six-year war period when more-than-normal revenues were available. Entering the post-war period, when revenues will inevitably be less, the Company believes that its plant and its finances are in shape, the better to serve the South, and to maintain the owners' confidence in their property.

ADVERTISEMENT

The management is grateful to the personnel for its steadfast effort in the trying war period.

Respectfully submitted, by order of the Board,
ERNEST E. NORRIS,
President.

SOUTHERN RAILWAY COMPANY
Financial Results for the Year

	In 1945	In 1944
The Company received from freight, passenger and miscellaneous operations a total revenue of	$247,536,833	$260,978,544
The cost of maintaining the property and of operating the railroad was	173,945,280	156,911,481
Leaving a balance from railroad operations of	$73,591,553	$104,067,063
Federal, state and local taxes required	43,044,685	66,641,178
Leaving a balance of	$30,546,868	$37,425,885
The Company paid to other companies for hire of equipment and use of joint facilities in excess of the amount received by it from those sources	3,729,101	4,010,044
Leaving an income from railway operations of	$26,817,767	$33,415,841
Other income derived from investments in stocks and bonds and miscellaneous items was	3,521,283	3,518,811
Making a total income of	$30,339,050	$36,934,652
Interest on funded debt and equipment trust obligations, rents paid for leased railroads and miscellaneous deductions totaled	14,040,329	14,672,838
Resulting in a net income of	$16,298,721	$22,261,814

SOUTHERN RAILWAY COMPANY
Financial Position at the End of the Year

	On December 31, 1945	On December 31, 1944	Increase or *Decrease*
The Company had investments in land, railroad tracks, terminal facilities, shops, locomotives, freight and passenger cars and other fixed property of	$572,811,076	$566,828,093	$5,982,983
In addition the Company had investments in stocks, bonds and notes of affiliated companies and other investments carried at	55,548,019	52,598,362	2,949,657
Total Investments	$628,359,095	$619,426,455	$8,932,640
The Company had cash and special deposits amounting to	$44,170,007	$32,934,682	$11,235,325
And temporary investments in U. S. Government Notes	46,160,000	72,300,000	*26,140,000*
Other railroad companies and others owed the Company	19,408,654	23,927,453	*4,518,799*
The Company had on hand fuel, rails, ties, bridge material and other supplies necessary for keeping road and equipment in good order	13,689,502	14,470,000	*780,498*
Deferred assets and unadjusted debits, including items owed to but not yet available to the Company	8,791,105	7,447,292	1,343,813
The Assets of the Company totaled	$760,578,363	$770,505,882	*$9,927,519*
The Company owed for materials, supplies, wages and balances to other railroad companies, and interest, dividends and rents accrued but not yet due	$34,667,386	$37,358,782	*$2,691,396*
Taxes accrued but not due	40,139,324	63,515,116	*23,375,792*
Operating reserves	2,284,359	2,080,873	203,486
Reserve for depreciation of road and equipment and amortization of defense projects	93,044,784	68,606,712	24,438,072
Deferred liabilities, including items due to others, but not yet adjusted	17,279,153	15,062,406	2,216,747
The total of these liabilities, credits and reserves was	$187,415,006	$186,623,889	$791,117
After deducting these items from the total assets there remained, for the capitalization of the Company, net assets of	$573,163,357	$583,881,993	*$10,718,636*
The capitalization of the Company consisted of the following:			
Funded Debt, including bonds, equipment trust obligations, etc.	$221,358,259	$238,486,658	*$17,128,399*
Preferred Stock	60,000,000	60,000,000	------
Common Stock	129,820,000	129,820,000	------
Making a total capitalization of	$411,178,259	$428,306,658	*$17,128,399*
After deducting this capitalization from net assets there remained a surplus, largely invested in the property, of	$161,985,098	$155,575,335	$6,409,763

Treasury Regulations for Salary Increases

The Treasury Department's Salary Stabilization Unit issued on March 20 its regulations defining the terms under which salary increases may be granted under the new wage-price policy. The rules inform employers of the basis under whcih they may, without prior approval, give salary increases which are to be included in applications for compensatory price relief. It was pointed out that such increases would not be permissible in the case of an employee earning more than $7,500 a year, specific authorization for such rises to be required from the Treasury Department.

Following are the regulations in brief, as outlined by the "Journal of Commerce" in a Washington dispatch of March 20:

1. An increase in the salary of an individual employee is permissible if it is not in excess of the dollars and cents increase approvable by the National Wage Stabilization Board to correct intra-company inequities.

2. Such an increase is permissible if it is not granted to an employee whose salary is in excess of $7,500 a year.

3. No increase given an individual employee and effective prior to the issuance of the President's executive order of Feb. 14, 1946, can be approved.

The new Treasury regulations will make it possible, the "Journal of Commerce" points out, for employers to make salary adjustments with individual employees along the same dollars and cents lines as wage increases granted workers who bargain collectively. Thus, higher paid salaried workers would not fare as well, percentagewise, as wage earners. The advices add:

Such individual increases made under the general approval granted by the Treasury Department may be applied to salary rate schedules.

So-called "approved" increases granted to individuals in conformity to the new regulations are automatically approved and the employers may include these higher salaries in any application for compensatory price relief.

No applications for approval of salary adjustments made in conformity with the new regulations are necessary, the Treasury Department announced.

The 100% Money and Other "Reserve" Proposals

(Continued from first page)

nocently because of ignorance, sometimes apparently on purpose either with intent to deceive or because their authors are remarkably credulous.

The worst and most troublesome type of money known to man—fiat paper money—has attained a high rank among the old monetary fallacies that have been dragged out, dusted off, and offered to the American people in all seriousness as something new and proper and genuinely promising in the social benefits it is said to guarantee.

The devices suggested for providing our people with the alleged "blessings" of fiat paper money have taken a variety of forms, ranging from open and direct advocacy, generally by those innocent of any knowledge of the history or principles of money, to subtle and indirect schemes offered by people who should know better. Some of this advocacy became so strong in Congress in the early 1930's that the Thomas fiat money law of May 12, 1933 (Sen. Elmer Thomas, Okla.), was passed—the first time since Civil War days that Congress had reached such a degree of wildness in monetary matters. Fortunately that law, which permitted the issuance of fiat paper money up to 3 billion dollars, was repealed by a saner Congress on June 12, 1945.

The "100% money" proposal, popularized chiefly by Professor Irving Fisher of Yale University, the Constitutional Money League, and Representative Jerry Voorhis in Congress, is an illustration of an attempt to foist a prodigious amount of fiat paper money onto the American people by a somewhat devious device. The amazing thing is that it should be taken seriously by anyone of responsibility who has had any significant amount of training in the history and principles of money. While most of the advocates of the proposal seem to be a motley assortment of monetary quacks, the Fisher scheme has had support of one sort or another among people from whom something quite diffrent would normally be expected. This is one of the striking features of that peculiar monetary disease which has afflicted this country, particularly since 1932.

On top of the 100% money or 100% bank reserve agitation of Professor Fisher and his associates and followers, we have, in recent months, been offered some new variations of 100%, or near 100%, "reserve" proposals which deserve special scrutiny because some of them emanate from Federal Reserve bank circles and from economists, some of whom have been closely tied in with Government "planning" agencies. One variety is the Treasury Certificate Bank Reserve Plan advocated by Simeon Leland, Chairman of the Federal Reserve Bank of Chicago, and Professor of Government Finance, the University of Chicago, and by Lawrence H. Seltzer, Professor of Economics, Wayne University, Detroit, and reputedly one-time staff member of the Federal Reserve Bank of New York and of the Board of Governors of the Federal Reserve System. A somewhat different variety is offered by a group of economists employed by the Committee on Economic Development, often referred to as the C. E. D.

The Fisher Proposal

The major aspects of the 100% money scheme, such as Professor Fisher proposes, can be traced back to the British chemical engineer and professor at Oxford, Frederick Soddy, who presented his views in a book called "Wealth, Virtual Wealth and Debt" (Dutton, New York, 1926). Deciding that economists did not know their business, he suddenly turned economist and supplied them and the world with what he deemed to be the proper answers.

Next came a plan for 100% reserves circulated in memorandum form by a group of economists at the University of Chicago. It is to this group that Professor Fisher seems most directly indebted.

Then came the first edition of Professor Fisher's "100% Money" (The Adelphi Co., New York, 1935), followed by a second edition in 1936. Now he has a third edition, and, in connection with a solicitation of support for his plan, he is offering a complimentary copy to the recipient of his request card. Professor Fisher states that he is soliciting approval of his plan from "4,069 economists, bankers and economic students," and, on December, 1945, reported that he had received 985 approvals. It will, of course, be interesting to learn just how many of these 985 are well-trained and experienced students in the fields of money, banking, and fiscal affairs, should their names ever be divulged.

Following the appearance of the second edition of his "100% Money," Professor Fisher was able to stir up some interest in the subject among that group in Congress whose members generally seemed ready to embrace fiat money or some similar wild-money scheme. Because interest in, and discussion of, the proposal appeared to be increasing sufficiently to indicate the possibility of some dangerous developments, this author prepared an analysis of the Fisher plan in a pamphlet called "The Fallacies of Professor Irving Fisher's 100% Money Proposal" (Farrar and Rinehart, Inc., New York, 1938), 41 pp.

In this pamphlet it was pointed out (p. 3) that "the title [of Fisher's book] does not reveal to the reader just what it is to which the 100% refers" and that if the title and subtitle were accurately stated they would read: "100% Money (But All of It Inconvertible Paper Money)." The last paragraph of the pamphlet (p. 41) reads: "Thus the evidence forces us to conclude that the proposal for 100% Money is not a proposal for 100% good money but for 100% inconvertbile paper money —a thoroughly bad money."

Professor Fisher objects to fractional reserves against demand deposits in banks and he wants the Government to issue all paper money and to do it in a manner that will stabilize the price level. Fisher has been an ardent advocate of price level stabilization by currency manipulation since he wrote his book, "Stabilizing the Dollar" (The Macmillan Co., New York, 1920). To require the banks to maintain 100% reserves against their demand deposits and to put in the hands of the Government the power to manipulate the currency supply by the issuance of fiat money, he proposes that all banks turn over to a Federal Currency Commission their Government securities and receive in exchange fiat paper money. This would eliminate much of the Government's interest-bearing debt, save interest, and give the banks 100% reserves—of fiat money.

When one considers that the demand deposits of all banks in the United States amounted to $104,650,000,000 on Dec. 31, 1945, one can see what a huge volume of fiat money Fisher would have the Government issue. As pointed out in this author's pamphlet (p. 3): "Stated very briefly, Professor Fisher's proposal would hurl this nation headlong into a thoroughgoing system of inconvertible paper money. The presumably good assets of banks, and the presumably good securities of the United States Government, would be converted into inconvertible paper money—the most effective device for defrauding innocent and helpless people that human beings probably have ever devised.

"All other arguments, contentions, and proposals of Professor Fisher become decidedly secondary in importance in the face of this major fact."

It is said further in that pamphlet (p. 4): "History is strewn with the wreckage and records of human suffering caused by 'ingenious devices' to issue, and 'control' the consequences flowing from, inconvertible paper money. These efforts to create wealth out of paper, to make something out of nothing, are a species of black magic, and they have always failed.

"Professor Fisher's plan is no better than many of the others that have preceded it. In some respects it is much worse than some of the others. . . .

"The Fisher proposal differs from other inconvertible paper money and inflationary schemes principally in its intricacy, ingenuity, and the cleverness with which the hocus-pocus involved is covered up."

The Constitutional Money League

Early in 1939, a group in and out of Congress, whose members were interested in pressing for fiat money, Fisher's 100% reserve scheme, repudiation of the Federal debt by the substitution of fiat money (which was not called debt but "Constitutional Money"), government-"managed" currency, and stabilization of the price level, organized what was called "The Constitutional Money League."

Although that organization seems quiescent, and it may be defunct, some of its one-time most active members in and out of Congress are still trying to put over its fiat paper money, 100% reserve, Monetary Authority, price-level stabilization scheme. For this reason a brief account of that organization's nature and efforts becomes an appropriate part of a description of present-day agitation for 100%, or near 100%, bank "reserves."

Although there was much about the Constitutional Money League and its tactics that did not readily meet the eye, a considerable amount of insight into the formal aspects of the organization can be obtained from the "Congressional Record" of March 3, 1939, pp. 3183-3185, especially p. 3185, and from the League's "Constitutional Money Advocate" (Jan. 1, 1940), pp. 17-18.

Its president was one-time Congressman from Nebraska, Charles G. Binderup. Robert Hemphill, one-time credit manager of the Federal Reserve Bank of Atlanta, was executive secretary. Robert L. Owen, one-time United States Senator from Oklahoma, was head of the Honorary Advisory Business Council. Besides the Honorary Council, there was, or was to be, an Executive Business Council and an "honorary tribunal of economists, with a membership of more than 100 professors of the Nation's outstanding universities, monetary authorities in political economy."

Various monetary economists and others tried repeatedly and in various ways to find out who these "more than 100 professors" were, but Binderup was always evasive and, so far as this author knows, the facts were never made available to the public or to Congress. It was reported that Professor Fisher was to marshal this group and to head it, but he denied it.

The League published a monthly magazine called the "Constitutional Money-Advocate," apparently running from Nov. 1, 1939, to April 1, 1940—in any event, this author could not obtain copies after the fifth issue. Its editor was Charles G. Binderup, and it was issued from his home at Minden, Neb.

From March 3, to June 1, 1939, the League ran a series of Tuesday morning Breakfast Talks, broadcast over station WOL, the Mutual station for the District of Columbia. Among the League's tactics, in its broadcasting and otherwise, was that of attempting to convey the impression that it was chummy with the "powers-that-be" and had widespread and important support. For instance, practically all Tuesday-breakfast broadcasts opened with a cheerful greeting by Mr. Binderup in some such manner as the following: ". . . we again bid good morning to our President Roosevelt, Members of the Senate and House, members of our President's Cabinet, and members of the Federal Reserve Board." ("Congressional Record," June 1, 1939, p. 9187.)

Another device employed, not necessarily as part of its radio broadcasts, was to appropriate or claim support whether or not it actually existed or was given. For example in February-March, 1939, six men, of which Professor Fisher was one, from six universities, circulated "A Program for Monetary Reform" among "a selected group of economists who are invited to signify their approval if they will." What they were asked to approve was the Fisher-Constitutional Money League program although neither the League nor Fisher's program was mentioned. In the "Constitutional Money Advocate" of Jan. 1, 1940, pp. 17-18, these six economists turned up under this statement: "In its educational work, the Constitutional Money League of America endorses and promotes the 'Program for Monetary Reform' (including the principles of Government monetary issue and control and 100% reserves back of demand deposits) sponsored by over 300 of the Nation's academic economists under the leadership of: [then the six economists were named]." Following the names of these six men was a list of 48 colleges and universities said to be "among the universities and colleges also represented by these 300 economists."

This author wrote each of the six economists asking whether "A Program for Monetary Reform" which they had sponsored was part of that of the Constitutional Money League. Three denied that they knew anything about the League, two were somewhat enigmatic, and Professor Fisher stated emphatically that it had no connection with the League.

An apparently very different answer was made by Binderup to a man who had written him about the League's support and program. He said: "The Constitutional Money League of America endorses and is promoting the program for monetary reform that is sponsored by over 300 academic economists from 48 of our leading colleges and universities such as Yale, Harvard, Princeton, Columbia, Cornell, etc. (listed in the "Constitutional Money Advocate") under the leadership of six courageous leaders (also listed in "Advocate")" — the six economists mentioned above.

Various requests went to Binderup to name the economists, in the institutions he listed, as supporting the League's program, but he always refused. One economist reminded him "that it is not 'cricket' to exploit your ideas with a vague statement of professional support. If you have that support it is quite clearly your duty to make the names known. If it really be true that professional economists are endorsing your plan but are unwilling to let their names be made public, the situation is a most deplorable one. My own extensive acquaintance among the economists of the country frankly leads me to doubt that you have any such support."

Probably the most active member of the League in Congress, and the persistent supporter of Fisher's plan was, and is, Rep. Jerry Voorhis of California. Voorhis, like Fisher and Binderup, was an active participant in the League's breakfast broadcasts, he inserted the League's material in the "Congressional Record," and he regularly introduced a bill in Congress incorporating the League's and Fisher's program. Voorhis is an advocate of fiat money; he would have the government buy up its securities with such money; he seems to see no difference between government securities and fiat money; and he appears to support all that Professor Fisher proposes.

The name of the Constitutional Money League rested upon an utterly unwarranted interpretation of the meaning of the "value of money" clause of the Constitution, and the League's members and supporters repeatedly reiterated the fallacy involved.

They insisted that the Constitution reposed in Congress the responsibility of regulating the value of money, that this meant that it was the duty of Congress to stabilize the price level, that since the price level fluctuated Congress was remiss in its duty, and that only the government (Congress) had the authority to issue money. Money not issued by Congress or its agent was not Constitutional money. The view as to what was good and Constitutional money was stated by Voorhis at one of the League breakfast broadcasts as follows: ". . . What we are trying to do is to work toward that greater ideal of a truly free America in command of our own economic destiny, which was expressed . . . in the issuance of lawful money by Abraham Lincoln. . ."—that is, greenbacks or fiat money. ("Congressional Record," March 3, 1939, p. 3183.)

All these contentions as to the meaning of the "value of money" clause of the Constitution were figments of imagination and utterly wrong. That provision of the Constitution refers solely to the power of Congress to fix the weight, fineness, and alloy of the standard monetary unit and of other coin, and the character and denominations of our various kinds of money. Even Professor Fisher, in his "100% Money," fell into the same error of misinterpretation of the monetary provisions of the Constitution as did Voorhis and other members of the League.

As recently as July 2, 1945, Rep. Voorhis made a speech in the House on "A Bill to Prevent Inflation and Deflation and Answer America's Debt Problem." This speech repeats practically all the major contentions of the League and Fisher, and is being circulated by Professor Fisher in the latter's recent efforts to drum up support among "the 4.069 economists, bankers and economic students who received such cards."

The Leland-Seltzer-C. E. D. Treasury-Certificate "Reserve" Programs

Whereas Professor Fisher and Rep. Voorhis would compel the banks to exchange their government securities for fiat paper money, Professors Leland and Seltzer and six economists of the C.E.D., in recent proposals, would require the banks to exchange part of their securities for special Treasury certificates which would be counted as "reserves" against their deposits—"reserves" in addition to the present reserves. The total "reserve" ratio need not necessarily be 100%, although it could be. Professor Seltzer suggests a flexible certificate "reserve" ratio, perhaps a 50% "reserve" on the average, this to be in addition to present reserve requirements. He suggests that the precise percentages might be left to the Federal Reserve authorities who would operate within limits specified by Congress. He also suggests that banks with deposits

of less than $1 million be exempt from the certificate "reserve" requirement.

The Seltzer-Leland-C.E.D. recommendations seem to have enough in common with the Fisher-Voorhis-Constitutional Money League 100% money and reserve program to warrant consideration of them as a variation, if not a lineal descendant, of it.

The Leland proposal was published in an article entitled "The Government, the Banks and the National Debt" in "The Commercial and Financial Chronicle" of January 17, 1946. It was an address made by Dr. Leland before the Institute of Business and Economic Problems, the University of Pittsburgh, January 16.

The Seltzer proposal, on which the Leland plan seems to rest,* was presented in a paper entitled "The Changed Environment of Monetary Banking Policy" at the convention of the American Economic Association, Cleveland, January 25, 1946, and printed in excerpt form in an article, "A Uniform Treasury Certificate as Bank Reserve," in the "Commercial and Financial Chronicle" of February 28, 1946. He had also presented the idea in two other publications, in 1940 and 1944, and Leland was acquainted with his proposals. "The American Banker" of February 4, 1946, reports that Seltzer was "borrowed" last summer from the Reserve Board by the Federal Reserve Bank of New York and that his plan in its latest form was written under the auspices of the bank, not the Board. "Seltzer then returned to his post in Washington," reported "The American Banker," which went on to say that "Seltzer's plan is looked on with favor by certain members of the Board staff, including E. A. Goldenweiser, who is listed as an economic advisor to the Board. . . ."

The C.E.D. committee of economists—Melvin G. deChazeau, Albert G. Hart, Gardiner C. Means, Howard B. Myers, Herbert Stein, and Theodore O. Yntema—published their recommendations in "Jobs and Markets" (The Committee for Economic Development, 285 Madison Ave., New York 17, N. Y., March 1, 1946), and it seems reasonable to suppose that they rested in large part upon the Seltzer, Leland, and Robinson plans which had been published earlier, although none of these preceding proposals is mentioned.

The Seltzer Proposals

Whereas the Fisher plan would supply the banks with fiat money at once, the Seltzer proposal is considerably more indirect, and, apparently, could call into existence little, much, or no fiat money. He says that his proposed Reserve Certificates "would be payable [by the Treasury] upon the demand of any bank," but he does not specify the type of money in which the Treasury is to redeem them. It would appear that if the demand for redemption should be heavy, the Treasury would be compelled to redeem them in fiat money. The silence of Seltzer on this point raises the question as to whether he is consciously or unconsciously offering a plan which conceals a road to fiat money. He does not think that the demand for redemption would be heavy "barring a deflationary policy by the Reserve System." That statement seems to imply that all the causes for deflation and a widespread demand for redemption would emanate from the Reserve System—a type of statement that fits well within the thinking and program of the Constitutional Money League.

Professor Seltzer recommends that the Treasury rather than the Reserve banks be the depository for these new "reserves," and adds that "Were it not for the unnecessary break with tradition that would be entailed, the additional reserve requirement could consist simply of interest-bearing deposits with the Treasury." (These deposits would bear interest because the Reserve certificates would bear interest "at perhaps 1%"—a rate which he thinks Congress, not the Treasury, should specify.) This would make the Treasury a, or *the*, central banking institution for the banks of this country. Just what the logic or virtue in such an arrangement would be is not clear. This proposal, like that of the Constitutional Money League, would put the Treasury still further into the banking business.

Seltzer's recommendation that Congress rather than the Treasury fix the interest rate on these Treasury Reserve certificates, lest the Treasury be "charged with imposing too low a rate," raises the question as to why Congress would not fix an even lower rate or abolish it completely. There are some Congressmen who would try to do it; and to place that power in the hands of Congress is among the things that the Constitutional Money League and other fiat money advocates desire.

In outlining what he insists are the virtues of his proposal, Professor Seltzer says: ". . . the large aggregate reserve requirements would promote a stability in the volume of deposits approaching that of a 100% reserve system." Much of his argument and the implications involved seem to fit rather neatly within the framework of the Fisher-Voorhis-Constitutional Money League 100% reserve plan.

There are variations between the Seltzer and Fisher-Voorhis proposals, but whether or not they are basically very significant is probably a highly debatable question. In any event, Rep. Voorhis seemed to regard the government-certificate "reserve" proposal sufficiently in harmony with his ideas of how the government should manage this country's currency supply and banks to justify his endorsement of it. He said ("Congressional Record," Mar. 18, 1945, p. 2426): ". . . In the interest of our country, in the interest of controlling inflation, in the interest of solving the problem of debt, get the banks out of the Government's business of creating money. At the present time the holdings of all the banks of cash and Government securities is substantially in excess of the total amount of their demand deposits. If we permit the Government bonds to be counted as part of the required 100% reserves, we would freeze these bonds in the bank vaults and prevent their becoming a base for a further multiple expansion of bank credit money. For the time being, the banks could receive the interest, but since the bonds would, in effect, have been monetized as part of reserves, therefore when they came due, they could and should be replaced with cash money created by the Government without capital debt, interest charge or taxes. This money would take the place of the bonds as part of the 100% reserves in the banks behind all their demand deposits. Then we would be safe from uncontrolled inflation. Then every bank in the Nation would be forever safe from runs or failure. Then we would have reduced our national debt to manageable proportions and have lifted a tremendous and . . . completely unjust burden from the backs of the American people."

Professor Seltzer says that "Increases or reductions in bank holdings of Government securities could be better regulated with deliberate regard for their effects upon the country's volume of bank deposits and rate of spending, instead of being permitted to occur in response to other influences without regard to their monetary effects." If that means anything it means a recommendation that Washington manage, or attempt to manage, the "country's volume of bank deposits and rate of spending."

He says further: "A permanent market at a low interest rate would be assured for that part of the increase in debt which was to be absorbed by the commercial banking system." Although one of the purposes of the Seltzer plan is to strengthen the position of the banks which now find themselves with large holdings of low-interest-rate securities and an inordinately small ratio of capital accounts to their deposits and their holdings of government securities, with all the risks involved, his plan is designed to perpetuate these low, or lower, interest rates and to provide the Treasury with "a permanent market" at such rates.

Professor Seltzer also points out that "If it were decided to finance additional deficits by the sale of securities directly to the Reserve Banks instead of to the commercial banks, similar certificates could be issued. . . ." If there is any known valid argument for such a procedure this author is not acquainted with it. That is the road that Germany took during and after World War I and which led to the destruction of the value of her currency. Nation after nation has headed into serious trouble by pursuing that course. This recommendation of Professor Seltzer also fits into the desires of the fiat money-"managed" currency-Federal Monetary Authority—100% reserve group.

Professor Seltzer insists that his suggestions are in harmony with the "far-reaching shifts in the climate of opinion" and with "the

(Continued on page 1660)

*Leland was also acquainted with Roland I. Robinson's "Monetary Aspects of National Debt Policy," Public Finance and Full Employment (Board of Governors of the Federal Reserve System, Wash., D. C., Dec., 1945), in which Robinson, of the Board's staff, presented a similar plan.

50TH ANNUAL REPORT

SOUTHERN CALIFORNIA EDISON COMPANY LTD.

(AND SUBSIDIARY COMPANY)

YEAR 1945

Consolidated Income Account and Summary of Earned Surplus Account for the Year Ended December 31, 1945

Consolidated Income Account

Gross Earnings		$ 68,805,744
Operating Expenses and Taxes		
Operation and Maintenance	$ 18,284,843	
Taxes—State, Local and Miscellaneous	7,111,610	
Provision for Federal Taxes on Income	19,527,500	
Provision for Depreciation	8,233,521	
Frequency Change Expense	149,383	
Amortization of Acquisition Adjustments	261,805	53,568,662
Gross Income		$ 15,237,082
Interest and Other Deductions		4,740,903
Net Income		$ 10,496,179

Summary of Consolidated Earned Surplus

Balance, January 1, 1945		$ 12,340,773
Add: Net Income for the year ended December 31, 1945		10,496,179
		$ 22,836,952
Deduct:		
Dividends	$ 9,796,107	
Miscellaneous charges (net)	688,879	10,484,986
Balance, December 31, 1945		$ 12,351,966

Consolidated Balance Sheet, December 31, 1945

Assets			Liabilities		
Plant, Property, Rights, Franchises, Etc. (Stated substantially at cost)	$370,605,850		Stated Capital:		
Cost of Electric Plant Requisitioned by United States Government (amount of settlement not determined), less partial payments received of $900,000	1,614,052		Capital Stock (Par Value $25 per share)		
Miscellaneous Investments	3,707,452		Preferred—		
Debt Discount, Redemption Premium and Expense on Refunded Issues ($9,834,384), being amortized over period ending December 31, 1959, less net premiums received on outstanding issues ($2,507,280) being amortized over lives of such issues	7,327,104		3,466,857 Shares $85,441,811		
Capital Stock Selling Expense on Original Issues	3,368,417		Common—		
Deferred Charges	437,753		3,182,805 Shares	70,743,697	$156,185,508
Current Assets:			Long Term Debt		138,000,000
Cash in Banks and on hand, and Working Funds	$ 5,762,966		Current Liabilities:		
United States Government obligations, at cost	33,730,908		Accounts and Dividends Payable	$ 6,713,189	
Accounts and Notes Receivable, less $741,650 Reserve for Uncollectible Receivables	5,096,048		Taxes Accrued (subject to final determination)	25,017,704	
Materials and Supplies, at cost	3,202,569		Interest Accrued	1,405,000	33,135,893
Prepaid Taxes, Insurance and other expenses	2,634,241	50,446,732	Reserves		96,387,100
		$437,507,360	Contributions in Aid of Construction		1,446,893
			Earned Surplus		12,351,966
					$437,507,360

(THE ABOVE STATEMENTS ARE CONDENSED FROM THE PUBLISHED ANNUAL REPORT)

The 100% Money and Other "Reserve" Proposals

(Continued from page 1659)

rise of new Governmental tools for deliberate exertion of monetary influence not yet coordinated with Federal Reserve machinery." One may well ask just what or whose opinion is worth while in matters of this sort? Is any opinion of any value that is not based upon well-tested experience and principles? Does merely a change "in the climate of opinion"—whatever that may mean—prove that a certain procedure in Treasury and banking affairs, no matter how bad it might be, should be adopted? Does "the rise of new Governmental tools for deliberate exertion of monetary influence" prove that they are wise and should be continued? The answers to these questions would seem to be obvious.

The Seltzer plan is fundamentally another proposal for more monetary management by the Federal government. The government's tools of monetary control are "not yet coordinated with Federal Reserve machinery," so Professor Seltzer offers a program to "coordinate" the banking system with Treasury policy. The unfortunate results which the world has seen again and again when a nation's banking structure has been "coordinated" with Treasury policy constitute a dark chapter in monetary and fiscal history.

Professor Seltzer says that "A new question arises respecting the legitimate level of bank earnings when the latter are mainly derived from Government securities." Who raises this question, and why should it be raised? Although it is raised by the fiat money advocates in and out of Congress, there is no valid reason for doing so. Just why a bank as a purchaser of government securities should be treated less favorably than any other purchaser is far from clear. A bank probably performs more service in connection with its purchases than does any other buyer. The notion that there should be such discrimination seems to rest upon nothing more than an anti-bank psychology. The problem here is not the size of bank earnings on government securities bearing an abnormally low interest rate but, rather, the dangerously low ratio of the banks' capital accounts to their deposits and investments in government securities. Peculiarly enough, Seltzer makes no suggestion that the banks increase the ratio of their capital against their deposits and holdings of government securities.

Professor Seltzer raises a question as to "the legitimate level of bank earnings when the latter are mainly derived from Government securities" by stating a proposition that is incomplete and inaccurate. He says: "The traditional concept that a commercial bank earns interest for the service of substituting its superior and better known credit for the inferior and lesser known credit of the borrower is strikingly inapplicable to the present situation in which the commercial banks [extend so much credit to the Federal government]." It is not a question of the banks providing a "better known" credit but a matter of the banks providing a *usable* form of purchasing power, against which they are required to maintain adequate reserves, in exchange for a form of credit that is not usable as a medium of exchange.

Furthermore, just what sort of standard does Professor Seltzer employ when he speaks of "the legitimate" level of bank earnings? Do we have a law that warrants his use of the word "legitimate"? Or does the word "legitimate" arise from some ethical notion that he may have as to what should be the maximum earnings of banks? Does not all this imply that Professor Seltzer is one of those who would sit in judgment on what "legitimate" profit margins for this and that business and person should be, and that he is one of those who is not willing to leave this matter to the forces of competition? Does it not imply acceptance of the profit-management concept?

Why Professor Seltzer should call his proposed Reserve certificates bank "reserves" is one of the puzzling aspects of his plan. This raises the fundamental questions as to what are the nature and functions of bank reserves. If reserves are, or should be, in the form of money (or a deposit which can be converted into money), that can be paid out upon demand, then Seltzer's government certificates would not be bank reserves; they would be, instead, a particular type of non-reserve bank asset. He is not dealing with bank reserves, if that term is to be used in any reasonable sense. What he proposes is a plan to inject much greater inflexibility into bank investments while it is greater flexibility, not less, that is needed.

It is quite true that, with the passage of the law of June 12, 1945, which made gold certificates alone lawful money for reserves in the Federal Reserve banks, Congress, apparently unwittingly, legislated into existence a reserve that cannot be paid out. But that bad piece of legislation provides no legitimate reason for making the situation even more irrational by calling government securities "reserves," particularly when they cannot be paid out to depositors upon demand and since the depositors would want cash, not government securities.

The argument which Professor Seltzer uses in defense of converting part of the banks' government securities into "reserves" involves a false analogy. He says: "Just as it [Congress] formerly required that national bank note currency be secured by United States bonds bearing the circulation privilege, Congress could require all banks . . . to maintain, in addition to other reserves, . . . reserves in the form of special Reserve Certificates or Reserve bonds. . . ." Security and reserve are two different things. National bank notes were money, and the securities behind them were not "reserves"; they were securities which were to be liquidated at the time of the retirement of the bank notes. Demand deposits are supposedly payable in money on demand; and securities do not and cannot perform this function.

Professor Seltzer says that "By making the Treasury, rather than the Federal Reserve banks or the Federal Deposit Insurance Corporation, the depository agency for the new reserves, the jurisdictional limitations of these other agencies would be avoided." Precisely so. It would make the Treasury the Dictator. It is the Federal Monetary Authority idea of the Fisher - Voorhis - Constitutional Money League group. It is centralized, Federal, Executive, totalitarian management of our money, banks, credit, and prices.

The Leland Proposals

Professor Leland made two recommendations "for consideration." One was for "legislation providing a special non-marketable security for bank ownership." This is simply the Seltzer plan with very minor variations and, therefore, except for the following observation, calls for no additional comment.

Dr. Leland says that "What this plan amounts to is not a freezing of 'governments' in the banks but rather the establishment of a minimum reserve in government bonds applicable to all banks." It is the opinion of this author that just the opposite is the case: The plan *would* freeze government securities in the banks, and it would *not* provide a "reserve," if that word is used in the appropriate sense.

Professor Leland's second recommendation was also in the Seltzer proposals but treated somewhat incidentally by him. Leland makes it item No. 2. He says: "A second suggestion is to permit the Treasury to borrow directly from the Reserve Banks whatever funds are required to finance the government. In the coming years, therefore, the Treasury would borrow from the Reserve System enough to pay off its obligations to the commercial banks."

The thorough unsoundness of any such procedure as that has already been pointed out. Anyone who wishes to satisfy himself on this point might well begin by consulting Kisch and Elkin, "Central Banks" (Macmillan & Co., Ltd., London, 1932 ed.), pp. 20-23, 28, 37. For example, those authors say (p. 22): ". . . If the control of the operations of the central bank lies directly or indirectly with the government, it becomes fatally easy for the government to finance itself for a time by means of book entries and short loans from the bank, a course which is the first step toward currency depreciation and inconvertibility." They say further (p. 22): "There can be no question that the power of the government to force increased loans from the Bank of France intensified the depreciation of the franc and contributed to the financial crisis which culminated in 1926." They say still further (p. 37): ". . . It is of cardinal importance that it should be made as difficult as possible for the government to resort to the expedient of borrowing from the bank, a practice which, if continued, can only lead to a repetition of past disasters."

The proposals of this type as advanced by Leland and Seltzer fly in the face of such evidence as that presented by Kisch and Elkin and others.

Professor Leland continues: "This plan, while it sounds radical, is really only an extension of the present system under which the Treasury has sold Treasury bills to the banks which, in turn, have sold them to the Federal Reserve Banks. The Treasury might as well have borrowed directly from the Reserve System in the first place." That notion simply overlooks practically every major principle involved in the proper relationship of a central bank to its member banks, and the part which a government, seeking and spending funds, should play in the nation's money markets.

In one sentence Leland seems to recognize the danger in his proposal when he says: "The plan might prove beneficial in operation or it might be a calamitous failure." Nevertheless he recommends it and argues for it.

Leland's recommendation in the face of existing evidence as to its dangerous aspects, especially when the government has "peculiar" notions as to the virtues of spending and debt, brings us back to the observation made at the beginning of this analysis that we in this country seem to be laboring under a peculiar disease in the field of money—namely, the perpetual attempt to solve some monetary, banking, or other economic problem by offering some old and well-established fallacy, perhaps in a different garb, as a "new," or "bright," or "progressive," or "promising" solution.

The C. E. D. Staff's "Security Reserve" Recommendation

This proposal was contained in a study by a research staff of the Committee on Economic Development on "Jobs and Markets" (released March 1, 1946), devoted to the matter of "how to prevent inflation and depression in the transition." In Chapter VI, on "Money, Credit and Public Debt in the Transition," and in other sections, the authors reiterated much of the argument and program presented by Professors Leland and Seltzer, and also recommended, under the name of "'Security Reserve' System," a program for freezing government securities in banks and for creating a central monetary authority under the President which "should be charged with developing and directing a unified program of fiscal, monetary and price control action to maintain price stability and high employment in the transition."

Although the recommendations of this group follow closely those of Leland and Seltzer in several respects, there are differences that warrant comment.

To control bank credit expansion, this Committee of six economists offer three alternatives: (1) "The 'reserve' quality of government bonds can be reduced by eliminating their automatic convertibility into legal reserves"; (2) "The 'excess reserve' quality of government bonds can be eliminated by converting them into required reserves of the present non-interest-bearing type"; and (3) "The 'excess reserve' quality of government bonds can be eliminated by converting them into required reserves of a new interest-bearing type." It is the third, which they call the "'Security Reserve' System," that the authors recommend; and that is, in several of its essentials, the Leland-Seltzer-Robinson plan.

Alternatives (2) and (3) involve the same misuse of the word "reserve" as is found in the Leland-Seltzer recommendations. At one point the C.E.D. group seem to support "a proposal" to offer "a special form of government security which banks can hold, dollar for dollar, against savings deposits—other reserve requirements being waived for deposits so backed. . . ." The question naturally arises as to how these depositors are to obtain cash when they want it if there is nothing but government securities held against their deposits.

Unlike Professor Seltzer, the C.E.D. group do not appear to recommend that the Treasury be the central banker to hold these "reserves." But in another way they go about as far as anyone could go in recommending centralized - executive - dictatorial - totalitarian control over this country's fiscal, monetary, and price policies.

This is what they say (p. 70): "What is most important is that there be an effective body specifically responsible under the President for coordinating fiscal, monetary and price policy during the transition." They also say (p. 70): "It is particularly important that tax policy, expenditure policy, banking policy and debt policy be fused into one effective, flexible instrument of monetary-fiscal policy.

"Coordination of policy at this level will require special machinery. It means the development and operation of a single program which involves major policies of the Treasury, the Federal Reserve, the price control agency and certain other government agencies. Essentially, responsibility for such coordination rests with the President. . . . There is need for an instrumentality to prepare an integrated program for review by the President and to see that the various parts of the approved [by whom?] program are carried out at the proper time." And further (p. 81): "The monetary authorities should be enabled to expand or contract the money supply to stimulate or limit demand."

Despite the many and extreme recommendations which the advocates of a government-managed economy have been making, and striving to make effective, in this country in recent years, it seems doubtful that anyone could devise a scheme for a more centralized, dictatorial, and totalitarian form of executive control over monetary, price, and fiscal affairs than that proposed by this C.E.D. committee of economists. Although much is said by this Committee about these programs, or various aspects of them, being designed for a "transition" period, it would seem to be quite clear that if a program such as this should ever be adopted the "transition" would have been effected, and that it would be a transition to a state of affairs which only the advocates of a totalitarian government pretend to want.

MacNaughton Heads Portland Reserve

The election of E. B. McNaughton (President of the First National Bank of Portland, Ore.) as a director of the Portland Branch of the Federal Reserve Bank of San Francisco was announced on March 8 by Harry R. Wellman, Deputy Chairman of the San Francisco Reserve Bank, it is learned from advices in the Portland "Oregonian," by its financial editor Frank Barton, from which we also take the following:

Mr. MacNaughton fills the unexpired term of Charles H. Stewart, President of the Portland Trust & Savings Bank, who was recently elected to the directorate of the head office of the San Francisco Reserve Bank. The term to which Mr. MacNaughton thus succeeds runs until Dec. 31, 1947.

Mr. Stewart was originally named to the directorate of the Portland branch of the Reserve Bank in June of 1945 to fill the vacancy caused by the death of Paul S. Dick, Chairman of the Board of the United States National Bank. He was reappointed at the end of the year.

When he was elected last month to represent the group of banks with capital ranging from $150,000 to $1,000,000 on the board of directors of the head office of the Reserve Bank there was a resulting vacancy on the board of the Portland branch of the Federal Reserve Bank.

Besides Mr. MacNaughton, other members on the board of the Portland branch of the Reserve Bank include D. L. Davis, who is managing director; W. H. Steen, Milton, Ore., wheat grower; and William C. Christensen, President of the Commercial National Bank of Hillsboro. Mr. Steen is Chairman.

Banks Aid NY State Small Business Program

More than 700 New York commercial banks of 62 local and regional bankers associations have been invited by the New York State Bankers Association and the New York State Department of Commerce to participate in the New York State program for developing and expanding small business.

A series of four special advertisements featuring banking aids for small business, a booklet, "Financial Services for the Small Business," posters for window and lobby display, and suggested local news stories constitute the "kit" of informational material developed to help bankers let small businessmen know that the banks are ready to aid them with credit and business counsel.

The goal of the program, says the Bankers Association, is the creation of 100,000 new businesses to more than offset the 100,000 small enterprises that closed during the war and to provide for what might have been expected as the normal growth in that field in New York State during the same period.

The Postwar Boom In Capital Goods Industries

(Continued from page 1635)

great depression, private gross capital formation amounted to $11.6 billion. Between 1923 and 1929 inclusive, private capital formation exceeded $15 billion annually except in 1924, when it was $13.3 billion. I mention these figures because they seem to me to be a significant revelation of the importance of psychology. Industrial production in 1937 was just as high as in most years of the late twenties, yet private capital formation never recovered its earlier levels. It may be argued that some of the private investment in 1928 and 1929, resulted in over-capacity. But it can hardly be denied that investors in 1937 lacked confidence that a high level of activity would continue and that private investment could safely be made.

Wartime Developments

The first step in discussing the outlook for capital goods industries is to consider what has happened since 1939. The wartime expansion of plant and equipment, financed by both Government and private funds, has a bearing on the outlook.

Some observers point to the fact that $23 billion were spent for plant and equipment between July, 1940, and June, 1944, of which $15 billion represented Government funds. Since this expenditure was so large, they conclude immediately that substantial over-capacity already exists. This conclusion is emphasized even after allowance is made for the fact that many plants may be kept in a standby condition, and that others were poorly constructed or for some other reason cannot be converted to peacetime production.

Before accepting this conclusion, I believe we should analyze the previous relation between industrial activity and plant construction. This will help us to measure excesses or deficiencies of the war period, and to relate these to the level of activity expected for the longer-term postwar period.

During the past twenty-five years there has been a very close relation between non-residential building and the general level of business activity. In fact, there have been two distinct patterns, one that held good during the twenties and one that applied to the recovery period following 1933. The same level of business activity in the latter period generally inspired a somewhat lower level of construction activity. This is easy to understand, since during the twenties many business men thought prosperity was here to stay. This faith in the future suffered a great shock during the great depression.

If we use these past relations to measure the actual expansion of plants against the level of business activity during the war period, we reach a definite and encouraging conclusion.

The volume of Government and private construction combined, during the years 1941 through 1944, seems to have been about $10 to $12 billion less than would normally have been undertaken by private businesses in order to meet the expanding level of business activity. If, in addition, one makes allowance for those plants that cannot be used in civilian work, he is forced to conclude, for the next few years at least, that there will be a high level of non-residential building. Furthermore, he must make allowance for the fact that expansion in this field will be limited in 1946 by Government attempts to guide building materials into badly needed housing. It would seem, therefore, that non-residential building at a high level can be counted on to continue at least through 1950.

Private Expenditures for Producers of Durable Equipment

Very similar conclusions apply to the outlook for industries producing durable equipment. Private purchases of such equipment in the past have also been closely related to the general level of business activity. A study of these past relations provides convincing evidence that combined private and Government purchases of durable equipment during the war were much less than would normally have been made by private industry in order to achieve the wartime levels of industrial activity. There is an accumulated demand rather than a surplus.

Naturally, all producers of machinery and durable equipment will not find themselves in the same position. Even though needs for some types of equipment may be substantial, it is quite possible that surpluses of other types will press on the market for many years to come. While each commodity must be studied individually, it is at least possible to take a typical example and see how much weight should be given to the effects of Government owned surpluses in making estimates for the future.

The situation becomes plain if we attempt a little mental arithmetic in connection with machine tools.

Total shipments of machine tools between 1940 and 1945 inclusive were valued at about $4,600,000,000.

Of this total, however, more than 1¼ billion dollars worth were exported.

In addition, it has been proposed that about $800,000,000 be kept in stand-by condition.

Moreover, it can be estimated on the basis of past relations that almost 1½ billion worth would have been purchased during the six year period, given the levels of industrial production that existed then. In fact, this is probably an under-estimate, since it makes insufficient allowance for a high rate of depreciation that comes about through three shift operations and inadequate maintenance.

Furthermore, it is estimated that more than $300,000,000 worth of the original total are special types of tools for which postwar demand will be negligible.

If all these deductions are made, the original figure of $4,600,000,000, which seems to indicate a tremendous potential surplus, has been reduced to about $750,000,000. But still further reductions must be made. Many of these tools will be sold to institutions that do not ordinarily buy new machine tools. Many of them will go to regular purchasers of used tools. This remainder also must be assumed to contain all those tools that were most mistreated and are in the poorest condition, which will limit their marketability. Finally, there is the general inefficiency of surplus disposal and a continuing possibility that some of the tools will be shipped abroad.

The net result of these calculations, for which exact accuracy is naturally not claimed, is to reduce the shockingly large total fo $4,600,000,000 to a final figure that almost certainly will not be larger than two to three hundred million, or quite possibly smaller. In other words, this last figure is the magnitude of the surplus that might affect the position of producers and the disposal of even this amount is likely to be spread out over a period of years.

Political Trends

Political trends have a vitally important bearing on the outlook for capital goods industries. I refer here not to day to day actions of Congress, the fluctuating policy of the Administration in connection with wage and price controls, or even the outcome of Congressional elections this Fall. Rather, I refer to the political philosophy that influences the attitudes and activities of the Government.

I shall not dwell long on such an unpleasant topic as the last great depression. It must be mentioned, however, because it led many people to accept an economic philosophy that can most aptly be described as "defeatist." Many of those who influenced or helped make policy became convinced that our economy had grown older, and that having reached its maturity, it no longer possessed resiliency and the forces of expansion that in earlier generations had led to successively rising levels of production and living standards.

It is not my purpose to argue the pros or cons of this theory. The mere fact that it was widely held in Government circles was bound to discourage private investment, since the theory stressed the need for an expanding level of public investment. The uncertainties that this entailed, the fact that public investment polcies could not be or were not projected into the future, so that business men would know precisely where the "public domain" began or left off, had the effect of making investors cautious. The confidence on which private investment is based was undermined.

The important fact at the moment is that this theory has been or is being discredited, so far as policy-making circles influential in the Federal Government are concerned. This is the net result of economic developments during the war period. The economy showed dramatically that it possessed a tremendous potential for expansion. Fewer people now regard the economy as "mature" or in need of stimulation. The mere fact that this earlier belief is no longer widespread automatically removes an important restraint from private investment. Technological advance will be stimulated.

How long this will continue can hardly be answered unequivocally at this point. My own opinion is that it will continue for at least five or six years and quite possibly for several years longer. All the studies my organization has respect for the expansive powers to the belief that industrial production will average 50-70% above prewar for this period of time. Activity will be higher than in any other peacetime period. It is my belief that the new-born respect for the expansive powers of private industry will live at least as long as this high level of activity continues.

Unemployment

Unfortunately, I am not convinced that this high level of production and business activity will fully absorb all those who are looking for work. Five million people will probably be unemployed by mid-year and this number will be substantially increased in the years to come. A modified "Full Employment Bill" has been passed by Congress and there is little doubt in my mind that some form of action will be taken under its authority. I merely express the doubt, in view of current political trends, that this administrative action will be disturbing to the psychology of private investors to the extent that it would have been in the prewar period.

Exports

The present moment is not a propitious time for any speaker who finds it necessary to say anything about exports. We are in the midst of our first great postwar crisis. Millions of people believed, six or eight months ago, that an international organization could consistently and easily settle differences between the great powers. Having experienced their first disillusionment, they are now confused and disturbed. In many cases I believe their judgment is somewhat warped at the moment. Without wishing in any way to minimize the difficulties our foreign policy will encounter, I must nevertheless warn against the more exaggerated fears that have been so freely expressed in the past few weeks. Since the foreign political trend will have a bearing on activity in the nation's capital goods industries, the possibilities must be examined.

First of all, let me say that the chance of a conflict between Russia and the United States in the near future seems to me to be exceedingly remote. Russia knows as fully as we do that the United States is at the moment the strongest military power in the world. I have heard the Russians accused of many things; but I have never heard them accused of the type of stupidity that would lead them to commit national suicide. If they use extreme measures, which seem to invite retaliation, if not war, in order to achieve certain national purposes, it must be, I believe, because they are convinced that the United States will not begin a war, and will enter one only if attacked.

The fact that these sharp differences in national objectives have created so great a disturbance so openly and so soon after the war has ended will, however, have some effect on national policy. In this period of uncertainty, when our foreign policy is being shaped, it seems highly doubtful that the Federal Government would permit actions depressing to the capital goods industries. I do not believe that the risk of surplus dumping was ever very great, and I believe it is even less now.

Some of you may find the preceding remarks far from reassuring. While I have expressed a positive belief that no armed conflict between the great powers is imminent, you may well ask me whether it may not come within a period of five or ten years. I believe we would all be making a mistake if we tried to make up our minds about that point at this time. It certainly does not seem to me to be inevitable; and I am sure that anyone who contemplates the consequences of another world war will earnestly seek some means of averting it. It seems quite possible to me, even probable, that the present crises in Western Europe, the Mediterranean, the Near East and the Far East will run their course, although perhaps not without some fighting by smaller powers, reaching a conclusion that may provide an opportunity to reach more general agreements, even if on a modified basis. Should this be the case, the period will have come when a more accurate estimate of export possibilities can be made.

One of the most basic facts in the world economy at the moment—and one that helps to explain current political tensions—is the fact that all the world desperately needs industrial supplies and the only place where they can possibly be obtained within a reasonable period of time is the United States. We should not lose sight of the fact that the need for industrial goods of all kinds is tremendous.

I shall not attempt any forecasts of exports at this point. Quite obviously their volume depends greatly on political developments abroad, and any forecasts made at the moment might tend to be on the pessimistic side. Their volume also depends upon the credit policy of the United States, which could only be appraised in terms of political settlements that are still to be achieved.

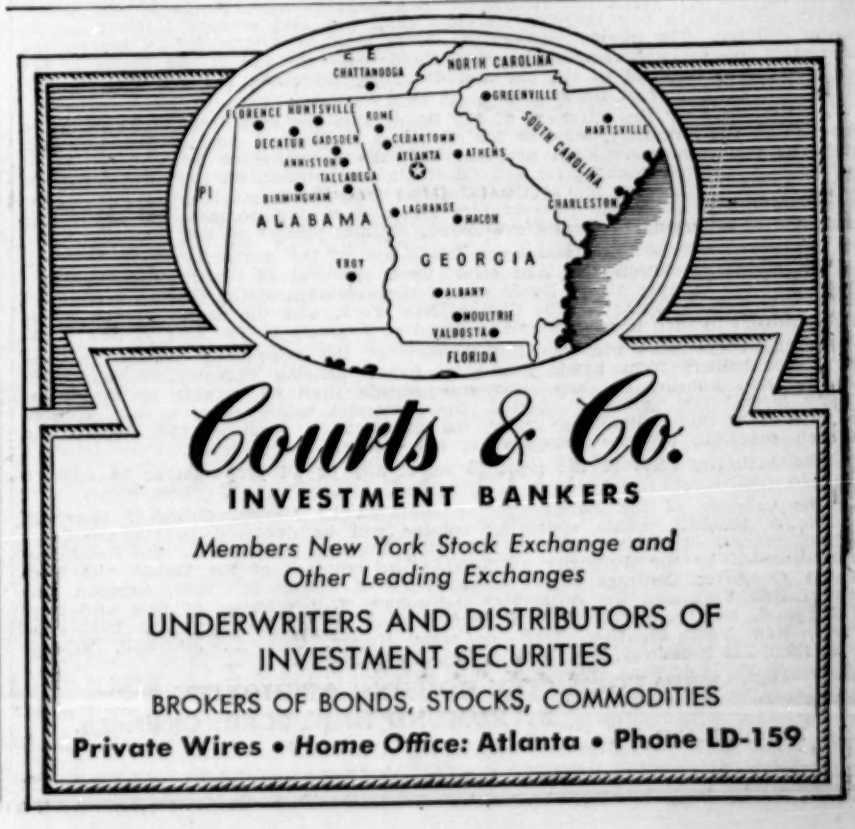
Conclusions

Looking forward to 1950 I believe we must conclude that the outlook for capital goods industries is the most favorable in the nation's history. Based on the expectation that total industrial activity will be 50 to 70% above prewar, the average gain for capital goods industries will probably be between 100% and 200%.

Although important uncertainties connected with political conditions abroad and with exports of durable equipment exist, at the moment, and may continue for some time, this is not likely to invalidate the above estimate. If we assume, on the one hand, that the period from now through 1950 will be one of continuous war scares, this is bound to have an effect on Government expenditures for defense purposes and, therefore, to maintain high level activity in capital goods industries. If we assume, on the other hand, that the present crisis will be followed by a period in which more encouraging progress will be made toward international understanding, then we must expect that exports of durable equipment from the United States will expand sharply.

Ellsworth to Open

CORPUS CHRISTI, TEX.—C. Bruce Ellsworth will engage in an investment business from offices at 615 North Upper Broadway. Mr. Ellsworth has recently been serving in the armed forces. In the past he was with W. J. Lackey & Co.



Municipal News and Notes

The municipal bond market has been an anomolous affair during the past month or so, in the sense that despite the marked letdown in the pace of distribution, bidding for new business has continued exceptionally keen and at levels which sharply belie the manifest indifference of investors to dealer offerings. In this situation, moreover, the price level has remained substantially unchanged, although the period in question has witnessed a precipitate decline in the stock market and an easier tone in the market for Governments.

Factors in the stability displayed in the tax-exempt field include the reinforced conclusion that (1) the Treasury is as firmly wedded as ever to the policy of keeping the level of interest rates to a minimum, and (2) the mounting evidence that the prospects form a greatly enlarged supply of local tax-exempts, in consequence of post-war improvement programs, etc., are far from promising.

This latter fact has been clearly evidenced in the results of operations during the first two months of the current year. The total output for the period has been no more than $151,266,598 and represents but a relatively slight gain over disposals of $135,934,588 in the comparable 1945 months. These figures suggest that States and municipalities, for one reason or another, have not been able, or disposed, to indulge in new debt operations on other than a moderate scale. Moreover, judging from the increasing reports of bond elections, the chances are that no material improvement on the supply side is likely to develop until some months hence.

Among the recent items of interest was the highly successful award of $3,142,000 series A refunding bonds by the Yonkers Municipal Housing Authority. This operation was twice significant in that the agency disposed of the bonds on the lowest interest cost ever achieved in the sale of obligations of that nature and the fact that the Mulford Gardens project, for which the financing was undertaken, become the second low-rent housing project to be financed 100% by direct private capital.

This latter point was emphasized by Philip M. Klutznick, Commissioner of the Federal Public Housing Authority, who noted that the proceeds of the issue would result in the retirement of the Government's entire capital investment in Mulford Gardens, consisting of $919,000 3% series B bonds held by the FPHA. Furthermore, the Yonkers unit was able to refund the $2,223,000 of series A previously acquired by private investors at an average rate of 2.06%, which compares with the average of 1.2428% at which the latest issue was marketed.

The total of $3,142,000 bonds covers the entire development cost of the project, except for $258,000 bonds that have already been or are soon to be retired, according to Mr. Klutznick.

The first low-rent housing project to be similarly financed entirely by private capital, incidentally, is operated by the New York City Housing Authority, which is currently asking for sealed bids until April 2 on an issue of $1,400,000 Jamaica Bay Houses bonds. This issue will mature serially from 1948 to 1952 inclusive, and the bidder is asked to name a single rate of interest of not more than 1.20%.

As the bonds are additionally secured by guarantee of the City of New York, the indications are that the Housing Authority will be able to market the loan on a strikingly attractive basis. The Authority, by the way, will open bids today (Thursday) on a total of $9,100,000 temporary notes, bearing date of April 17, 1946, and maturing on April 17, 1947.

Arnall Predicts Prosperous South

Governor Ellis G. Arnall of Georgia, who has been much in the news of late by virtue of his campaign to obtain uniform freight rates throughout the country, recently expressed the view that the South is destined to lead the nation on its way to permanent prosperity. During the course of a radio broadcast, Mr. Arnall declared that the South has made substantial progress in the eight years since the late President Roosevelt described it as the nation's number one economic problem.

"Our people," Georgia's Governor asserted, "are turning to dairying, beef-cattle raising, timber-farming—and I mean literally growing trees as a regular crop—to replace cotton as a source of income."

"We have developed some new and wholly non-competitive industries based upon wood pulp and plastics. We have pretty well eliminated the farm and home mortgage debt in the South."

Reporting that 300 new industrial plants were established in Georgia last year, Arnall said "there is a definite trend toward decentralization of American industry."

Thomas Doyle Joins Staff of Lobdell Co.

Thomas F. Doyle, formerly captain, A. U. S., has become associated with Lobdell & Co., Inc., 20 Exchange Place, New York City. Prior to military service, Mr. Doyle was with G. M.-P. Murphy & Co.

Dealers in
VIRGINIA—WEST VIRGINIA
NORTH and SOUTH
CAROLINA
MUNICIPAL BONDS

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$1,400,000

NEW YORK CITY HOUSING AUTHORITY

Jamaica Bay Houses Bonds

SEALED PROPOSALS will be received by the New York City Housing Authority (herein called the "Authority") at the office of the Comptroller of the City of New York, Room 530, Municipal Building, in the Borough of Manhattan, City and State of New York, at 11 o'clock A. M. (Eastern Standard Time), on the

2nd Day of April, 1946

for the purchase of Jamaica Bay Houses Bonds of said Authority in the aggregate principal amount of $1,400,000, dated April 1, 1946, and maturing serially in numerical order on April 1 in each of the years and amounts as follows:

Year	Amount
1948	$280,000
1949	280,000
1950	280,000
1951	280,000
1952	280,000

The Bonds will be in the denomination of $1,000 each, will be numbered from one consecutively upwards in order of maturity, will be issued in the form of coupon bonds, registerable as to principal only, or as to both principal and interest, with the privilege of reconversion at the expense of the holder into coupon bonds, and will bear interest at the rate to be determined as hereinaftr provided.

Both principal and semi-annual interest (April 1 and October 1) will be payable at the principal office of the Fiscal Agent of the Authority, The National City Bank of New York, in The City of New York, New York (or at the principal office of any successor Fiscal Agent, in The City of New York, New York).

The Bonds will be issued by the Authority for the purpose of providing funds for the payment of a portion of the cost and expense of the acquisition, construction and development of a housing project commonly known as Jamaica Bay Houses, located in the City of New York, and purposes incidental thereto.

The Bonds will be direct and general obligations of the Authority and the punctual payment of the principal of and interest on the Bonds will be guaranteed by The City of New York pursuant to a Guaranty Contract to be executed as of March 28, 1946, between the Authority and The City of New York. The payment of the principal of and interest on the Bonds will also be additionally secured by certain other funds and revenues derived from the operation of the aforesaid project.

Bidders must state in their proposal the rate of interest (naming a single rate) the bonds are to bear, not exceeding one and twenty hundredths per centum (1.20%) per annum, expressed in a multiple of one-tenth of one per centum and the Bonds will be sold to the bidder or bidders offering to take such Bonds at the lowest interest cost and to pay therefor not less than par and accrued interest to the date of delivery. The interest cost of the Bonds shall be determined by aggregating the annual interest requirements for such Bonds over the life of the Bonds at the rate of interest specified in the bid and deducting therefrom the premium, if any, offered by such bidder or bidders.

All proposals for the purchase of the Bonds shall be submitted on forms to be furnished by the Authority, must be for all of the Bonds and must be unconditional, except as stated herein. Each proposal must be accompanied by a Certified or Cashier's or Treasurer's check for $28,000 and a computation on the form furnished by the Authority showing the aggregate of the annual interest requirements of the Bonds, on the basis of the interest rate specified in the proposal for the Bonds (expressed as a percentage carried out to four decimal places) on the foregoing basis.

The Bonds will be authorized by a Resolution of the Authority adopted March 7, 1946, which Resolution will take effect upon approval of the Project and upon approval of the issuance of the Bonds and of the execution of the Guaranty Contract by the Board of Estimate of The City of New York, and the award of the Bonds will be subject to such approvals by the Board of Estimate of The City of New York.

In the event that prior to the delivery of the Bonds the income received by private holders from bonds issued by public housing agencies in connection with low-rent housing or slum clearance projects shall be taxable by the terms of any federal law hereafter enacted, the successful bidder may, at his election, be relieved of his obligations under the contract to purchase the Bonds, and in such case the deposit accompanying his bid will be returned.

The Authority reserves the right to reject any or all proposals or to adjourn the sale.

The validitiy of the Bonds will be approved by Messrs. Caldwell, Marshall, Trimble & Mitchell, whose approving opinion will be delivered to the purchaser without charge. The form of such approving opinion, the form of the Resolution to be adopted by the Authority authorizing the issuance of the Bonds, the form of the Guaranty Contract to be executed as of March 28, 1946, between The City of New York and the Authority, and copies of this Notice of Sale and form of Proposal, may be obtained upon request from the Authority at 122 East 42nd Street, New York 17, New York, or from Messrs. Caldwell, Marshall, Trimble & Mitchell, 115 Broadway, New York 6, New York.

NEW YORK CITY HOUSING AUTHORITY
By EDMUND B. BUTLER, Chairman.

Dated March 23, 1946.

The Marketing of The World Bank Bonds

(Continued from page 1633)

competition by the Bank with private sources of capital; and (4) that the managers of the Bank will be careful to achieve all feasible economies in the costs of distribution, in the interest of the Bank as well as that of investors in the bonds, and of the borrowers.

Debenture Bonds to Be Offered

The offering of debenture bonds is likely to be the principal marketing operation of the Bank for the foreseeable future. Among the reasons for this likelihood are the known preference of investors for direct as against contingent or guaranteed obligations and the fact that the Bank's own bonds are an unconditional promise of interest and principal for a definite stated period whereas the guaranteed bonds are not. This arises because of a provision in the Bretton Woods Agreement on the Bank (Article IV, Section 7) under which every bond guaranteed by the Bank must carry a statement that it can be paid off at par at the discretion of the Bank's directors in case of default. This may cause some concern to those investors who are particularly interested in long term issues, such as insurance companies, and may also limit market premiums on guaranteed bonds as compared to the direct obligations.

There is, however, an argument put forward in some quarters to the effect that the guaranteed bonds of the Bank would have a higher investment rating than its direct obligations. This argument rests in part upon a calculation that in the event of a necessitous liquidation of the Bank and only partial meeting of its total liabilities, the creditors who hold guaranteed bonds would fare better than those holding its debentures. The merits of this calculation are not here in question, nor the probability that any such inequity could be cured in the drafting of the indentures on each type of obligation. If, however, this inequity should turn out to be unavoidable, without some radical amendment of the Bretton Woods Agreement, it would seem to provide another basis for anticipating that the direct method of financing would be preferred. Surelythe Bank's directors will not wish to create different types of loan instruments which carry such disparate rights to their holders.

No Underwriting

It seems quite evident that the Bank's directors will not consider any distribution procedure which involves the underwriting of the risks on offerings of its bonds. This should be evident not only because the Bank's obligations should in the course of a short time find a ready market, but also because it would appear to be an act of excessive condescension involving unnecessary expense for an institution of the dimensions of the International Bank to enlist the more limited resources of private banking institutions in this way.

There is, however, a very important function for the investment banking industry to perform in the offering of the Bank's bonds and that is the distribution and actual selling of them. In the early period of its operations, at least, the International Bank will probably call upon these services of private bankers. Investment bankers will probably greet this prospect of business quite enthusiastically particularly in view of the current and prospective scarcity of new domestic securities offerings and the probability that most of the foreign financing will be placed through the Bank for some time to come.

At present there is evidence of a wait and see attitude toward the Bank and its program on the part of some of the banking institutions in the large financial centers. On the other hand, there is an active group of investment men, particularly those attached to the large commercial banks, who are more alert to the potentialities of the Bretton Woods program and have already initiated something of a campaign to permit their active participation as dealers and distributors of the Bank's bonds. This would require amendment of the Federal banking statutes.

Bankers and Dealers as Bank's Agents

Perhaps the most generally satisfactory arrangement for the distribution of the Bank's securities would be the employment of bankers, brokers and dealers on an agency basis. This would involve the payment of commissions on the placement of the Bank's obligations. Whether or not it will be necessary to organize actual selling groups for this purpose remains to be seen. Such groups have the advantage of guaranteeing an orderly distribution. On the other hand, they preclude the entry of all firms into each offering by the International Bank. This latter *desideratum* could probably best be achieved by the Bank's giving public notice of its intended financing and inviting all interested investors and their agents to participate. This would be a kind of "first come, first served" arrangement, not very different, however, from the "special offering" procedure which has been in successful operation on several national securities exchanges for a number of years. As the bonds of the International Bank will probably be registered for dealings on a number of the national securities exchanges, this type of distribution may be found to be quite feasible.

"Tap Offerings"

Another offering method not unrelated to the "special offering" to which the Bank's managers might wish to give consideration is the "tap offering." This distribution procedure has been quite popular and successful in England in the sale of several series of national issues. "Tap offerings" provide a good method for reaching the public. The usefulness of this method depends in part upon how immediately the issuer needs funds. It may be that the Bank could use this kind of offering almost as a continuous process while concurrently raising funds for its additional needs by the specific offering of individual issues. The tap offering seems to have the added advantage of being most economical, as well as providing to the Bank direct contacts with its actual investors.

It would seem desirable from the point of view of investors as well as the Bank to keep the number of different issues to a minimum, not only as between the kinds of obligations but also as to coupon rate, amortization terms and maturity. This would enhance the liquidity of the outstanding bonds, larger issues being as a general rule more readily salable, and would also reduce the problem of educating investors on the merits of the Bank's bonds.

In view of the substantial volume of securities which the Bank will offer to the market, some have felt that a stock exchange commission might well be sufficient under present circumstances to elicit the active interest of

brokers, dealers, and the bond-selling community in general. By stock exchange commission is generally meant ⅛ to ¼ of a point—in other words, $12.50 to $25 per $1000 bond. Whether this is adequate compensation to dealers and brokers would depend in part upon how much of the educative selling the Bank management itself is prepared to undertake and how much is left to the responsibility of its agent. If the preparation of the market and the education of investors is left entirely to the personnel of the securities industry, a larger discount or commission will probably be looked for. On the other hand, if the Bank, through its staff, is prepared to "condition" the U. S. investment market, a selling commission commensurate with a simple brokerage operation may suffice.

Market Stabilization Operations

The placing of bonds with ultimate investors and the holding of them over long periods will be helped in part by the relative stability of the market for the Bank's bonds. This stability might result from the natural operations of the market itself, particularly if the Bank's bonds are widely distributed among many investors. On the other hand, stabilization operations through market purchases and sales of the bonds might also be needed, especially in the early periods. Section 8 of Article IV of the Agreement on the Bank provides for certain miscellaneous operations which include the buying and selling of securities which the Bank has issued or which it has guaranteed. The Bank itself, therefore, is vested with powers to stabilize the market for its own securities.

There are certain considerations which affect bonds guaranteed by the Bank more than its direct obligations. For example, there is the debatable proposition that the bond of any foreign government guaranteed by the International Bank would be as good as that of any other government with its guarantee. A corollary to this proposition is that any Bank-guaranteed bond of the same terms will sell at the same price in the market as any other. These are statements which will be proven true or false by the combined judgment of future investors. It may be expected, however, that the width of price disparities between different Bank issues will be attenuated by professional arbitrage or hedging transactions. Some feel, however, that any price differences in the various outstanding obligations of the Bank would make for an undesirable impression upon the public. To overcome this the Bank could have recourse to the powers of miscellaneous operations cited above and buy up issues in the market which might be offered at prices below those at which other issues, including its direct obligations, were prevailing.

Offering of Guaranteed Bonds

The method of offering and distributing bonds guaranteed by the Bank may be substantially different from that of its direct obligations. In part, this difference would stem from the manner in which the issuance of guaranteed bonds would probably initiate. While the Bank itself would probably be the judge as to how much, when and where to float its own direct obligations, its guarantees would probably be solicited from outside either by the borrowing country or by the investment bankers. It may be that a foreign government wishing to obtain funds in the U. S. capital markets will directly approach a banker. After negotiations between them, an agreement to underwrite and offer bonds to the public might be reached conditional upon the attaining of a guarantee from the International Bank. In such an event, either the representative of the borrowing country or the investment banker or both would approacn the Bank's management. In this instance the issue of bonds would probably be fully underwritten by private bankers.

Careful screening of loans which the Bank may guarantee is assured by the provisions contained in Section 4 of Article III of the Agreement. One of these provisions requires that a favorable written report upon the merits of the proposed financing must have been submitted by a competent technical committee of the Bank. These conditions in general may retard to some extent the usual rate of speed with which investment bankers in the United States are accustomed to prepare an issue for public sale. On the other hand, a procedure could no doubt be worked out whereby registration with the Securities and Exchange Commission might be undertaken concomitantly with the study by the Bank's technical committee.

The second of the conditions of Section 4, Article III of the Agreement reads as follows: "The Bank is satisfied that in the prevailing market conditions the borrower would be unable otherwise to obtain the loan under conditions which in the opinion of the Bank are reasonable for the borrower." A good question is what kind of evidence will the Bank require to satisfy it that in the prevailing market conditions a given borrower is unable otherwise to obtain a loan on reasonable terms? For example will the opinions of a selected group of commercial banks or investment bankers be received as an adequate index of the private capital market's view of a projected loan Probably the International Bank will wish to make a more careful and open canvass of the private capital markets prior to its approval of a loan than has been undertaken heretofore by other public financial institutions in the field of foreign loans. For this purpose it will have available a method which has in large part superseded the older one of direct negotiation between a borrower and a particular banker, i.e., the method of competitive bidding. This method should be peculiarly adaptable to the needs of the Bank for a procedure which is fair to all, open to the public and assures a sound appraisal of a particular issue. It is here put forward as the best method for satisfying the Bank as to whether a loan can or cannot be obtained from private investors on reasonable conditions as required by Section 3, Article III of the Agreement.

Who Will Buy the Bank's Bonds?

The preceding discussion has raised some questions and attempted to give some answers as to how the Bank might sell its bonds. There is also the question as to who will buy these bonds. The discussion has emphasized the importance of obtaining a wide distribution for them among all kinds of investors. At present, however important institutional investors are precluded from purchases of the Bank's direct or guaranteed bonds by statutes of some of the states in which they are incorporated. Most notably this applies to insurance companies and savings banks whose investments are prescribed by State laws and administered by insurance superintendents and banking commissioners. These laws most frequently take the form of a list of securities eligible for investment. Very few foreign bonds are included on these lists. The International Bank being an entirely new kind of institution and *sui generis*, its bonds are not qualified under existing State laws. Insurance companies and savings banks in many State jurisdictions are, therefore, debarred from purchasing these bonds.

Insurance companies constitute by far the largest class of investors in the United States, their purchases and holdings of municipal and corporate bonds exceeding those of any other class of investors. Savings banks are also very substantial investors in high-grade bonds. Recognizing this and believing that these institutions would welcome the opportunity to extend their investment outlets, the present restrictive state statutes with respect to the Bank's bonds was brought to their attention several months ago. Representatives of these institutions evidenced a very lively interest in the reconstruction and development program of the Bank and many expressed the view that they should be afforded the opportunity to participate in the program by purchasing International Bank bonds if they desired to do so.

It had been hoped by these early conversations that amendments to liberalize state laws would be submitted to those legislatures which were in session during the first quarter of this year. These amendments would have given insurance companies and savings banks in such states as New York, Massachusetts and New Jersey the right to invest in the first issues of the International Bank which may well be quite attractive from the investors' viewpoint. Some State authorities, however, decided to defer submission to the legislatures until after the Bank had commenced operations. As a result, the Bank's bonds will not be "legal investments" until next year's session of these State legislatures.†

Commercial Banks as Purchasers

The Bank may, however, sell its bonds to commercial banks which are not generally governed by State statutes in their investments. Commercial banks which are members of the Federal Reserve System are permitted to purchase the bonds of any one issuer in an amount not to exceed 10% of their capital and surplus. It is estimated that on this basis these banks could purchase a maximum of $600,000,000 of Bank bonds. It may well be that the Bank's directors will wish to place its early offerings with the commercial banks, particularly until individual investors are sufficiently informed to insure an active public interest in the Bank's offerings. But, in adapting its financing to the commercial banks' requirements the Bank will have to depend primarily on short-term obligations. This may be quite feasible for the Bank at the outset but eventually it will wish to refund these obligations and offer additional ones for longer periods than the commercial banks may be able to lend.

Trust Funds and Institutions

The Bank will no doubt make a careful study of all segments of the U. S. securities markets and the proclivities of other types of investors. Among these the most homogeneous and perhaps best informed group are trustees, individual and corporate. While trust funds are subject in some important states to the same laws that affect savings banks this is not so general as to preclude their present participation in the Bank's offerings to a substantial extent. In fact, it has been estimated that approximately 80% of trust funds now in being are free of the restrictions of the legal lists because of their terms. It is well known that trustees like other investors have been experiencing an increasingly difficult task in finding outlets for these funds and that much of them is now held in cash. In recent years, furthermore, trustees have by force of this circumstance become more liberal in their investment practices and have made substantial commitments in common stocks and real estate. This attitude and the pressure for new investment outlets, together with the high rating of the Bank's bonds, should give them a warm reception by trustees.

Much the same reasoning applies to charitable and educational institutions. Their investments are generally not restricted by State or other laws, but only by charter provisions. These institutions have also been consuming rather sizable amounts of common stocks under pressure of idle and liquid funds and a need for higher returns than is afforded by current yields on government bonds. They also should be good customers for the Bank's bonds and they have substantial funds to invest.

Will Business Corporations Buy?

Although general corporations could purchase substantial amounts of Bank bonds, there may be considerable doubt as to how much they will actually be willing so to invest. Corporations hold enormous sums in bank deposits and in government bonds largely of short term. Their working capital held in these liquid forms has increased more than 300% since before the war and is by far the largest in history. There seems little prospect of their being offered new government issues for some time to come except in refunding. This might indicate the probability of a substantial demand for Bank bonds by U. S. corporations. But against this must be weighed the apparent penchant of corporate managements for an extreme degree of liquidity which limits their investments to short-term obligations. On balance, therefore, the Bank may find from corporations a good demand for its obligations of short maturities, but considerably less for its more permanent form of bond offerings.

Investment companies or investment trusts may become interested in holding bonds of the International Bank of long as well as short term. These companies sometimes carry rather substantial sums in cash and government bonds relative to their total assets, these sums varying with the stock market prospects as they appear to the trust managers. Investment trusts generally are insistent upon the liquidity of their holdings, liquidity in this instance meaning primarily ready saleability. As the securities of the International Bank, particularly its direct obligations, should enjoy a stable and liquid market for reasons cited above, they should have considerable appeal for investment companies, assuming that the yield on bonds of the Bank will be somewhat higher than that at which U. S. Government bonds are selling in the open market.

There are, however, two factors which should indicate a cautious view as to the Bank's addressing its offerings to this group to any extent. First, the fact that the total cash and deposits held by the investment trusts is not large measured by the amount of bonds which the Bank will be offering to the market, and, second, that the investment trusts are not dependable holders because of their habits of frequently switching investments according to the trend of the securities markets.

Individual Purchasers

There remains to consider the prospects of the Bank selling its bonds to individuals. How much of these issues might the U. S. public, the individual savers and investors absorb? Although Bretton Woods has been prominent in the press and in public discussions it is hardly likely that sufficient emphasis has yet been given to those aspects which are of primary interest to investors to assure the bonds a ready market among individuals at present. The fact that the bonds will be registered with the Securities and Exchange Commission and that the selling literature, the prospectus, will be prepared under the watchful and experienced eyes of its staff, should be of real assistance in this direction. But this educative process will inevitably take time. Bank bonds represent an entirely new genus of security and they might be scrutinized with care and some skepticism by many U. S. investors. Furthermore, by some, the Bank's guaranteed bonds and perhaps its direct obligations also, will be classed as foreign securities.

But these prejudices and qualms will be overcome eventually as the U. S. public comes to understand the purpose and nature of the International Bank, as its Board of Directors become known and as it becomes more clearly understood how all powerful is the National Advisory Council on International Monetary and Financial Problems with respect to the Bank's offerings in the U. S. capital markets.

There is no doubt that individual investors in the United States have ample investible funds to absorb all the bonds that the International Bank is empowered to offer and guarantee. The cash and bank deposits held by individuals in this country is estimated at over $100 billion, while the maximum lending power of the Bank if all its authorized capital is actually subscribed is $10 billion. Furthermore, individuals as investors have been constantly losing their holdings of high-grade bonds and preferred stocks through the corporate process of refunding at ever lower coupon and dividend rates and by the direct selling of new issues to institutional investors, including commercial banks. There should, therefore, be a healthy appetite for the new Bank's securities. To predict that this potential demand will be actualized would be to make a judgment in the realm of popular psychology from which this writer will refrain.

†As of the date of this writing, however, it is learned that the N. Y. State Legislature has adopted an amendment to the banking laws to permit savings banks to invest in the direct and gauaranteed obligations of the International Bank. The bill incorporating this amendment is now awaiting the Governor's signature.

Four Wheel Drive Auto Co. Common Stock Sold

Comstock & Co., Chicago, and Irving J. Rice & Co., St. Paul, Minn., on March 12 announced the sale of 2,587 shares of common stock (par $10) of Four Wheel Drive Auto Co. These 2,587 shares represented 1,623 unsubscribed shares out of 13,269 shares offered for subscription to common stockholders and 964 free shares.

The common stockholders of record Feb. 11 of Four Wheel Drive Auto Co. had been given the right to subscribe on or before March 7, 1946 for a total of 13,269 shares of stock at $20 per share on the basis of one new share for each 14 shares owned. With the issuance of the above 14,233 shares (including 964 free shares), the outstanding common stock totaled 200,000 shares.

The common stockholders of record March 19, 1946 are to receive on March 29, 1946 a distribution of one additional share of common stock for each two shares held. This will bring the total outstanding common stock up to 300,000 shares.

Cohu & Torrey to Admit

Cohu & Torrey, 1 Wall Street, New York City, members of the New York Stock Exchange, will admit John Hall Allen to limited partnership in the firm as of April 4.

The Inflation Outlook

(Continued from page 1632)

building at Florida 99 in Buenos Aires is as much at home in the leather and wool producing Argentina as its parent bank here in industrial New England.

The wool crops in many parts of the world are grown with Boston as their market. When cotton textile manufacturing developed in the South, it was New England savings and New England management that developed them. It is largely New England savings that still possess them. The machine tool industry moved West, but much of it is owned in New England. The quantity production of shoes also moved West, but quality and quantity production of shoes still thrives in New England. New England is the financial parent of industries that are nationwide and worldwide.

Always New England has saved its money. Always New England has looked to itself for the support and strength that only you yourselves can supply. Always New England has expressed the conservatism that grows with cash and fades with spending.

In recent years you have watched your savings, built up in three centuries, dissipated in thirteen years of extravagance and waste, in peace and war. You have watched the purchasing power of your money decline even though the principal remained unchanged. You have watched the return in profits and in dividends decline one year below another while your costs of living and of doing business have increased.

Because of New England's higher percentage of savings, the national debt of $279 billion carries greater burdens for you than it does for the less thrifty and provident in other parts of the nation. Because the unit of money is unchanged, people are unaware how much its value has been reduced. While your interest in inflation is vague and limited, its power to destroy your savings increases. Inflation is at hand just as the atomic bomb is here. You may never learn about the atomic bomb as Hiroshima learned it. You can only avoid learning about inflation by reducing debt and increasing production.

Two Stages of Inflation

Rougnly and crudely, inflation divides into two stages. One is the expansion of money and credit in the absence of production. That inflation is here now. The other is runaway inflation resulting from fear. Today's discussion is directed against this second and even more destructive stage of inflation that must result from continued spending.

Since 1939, according to the Bureau of Labor Statistics' index of wholesale prices, house-furnishing goods increased 21%, building material 32%, textiles 45%, and food 54%. In the terms of what the people can buy, goods that could be bought for $1.00 in 1939, now cost $1.39. That's inflation!

That figure does not include the rise of prices which has been, and will be, made under the new wage formula—an impractical political attempt to inflate wages and deflate prices. This price increase, Marriner Eccles says, may reach 10%. That's inflation! This inflation does not include the breaking of its own price line by OPA to gain Congressional sanction for extending its controls. Allowed increases in prices of meats, grains textiles will continue to reduce the purchasing power of the dollar until production of goods at a fair profit is permitted. Goods which cannot be made at a fair profit just don't get made. That is how OPA restricts production. It increases inflation.

This inflation does not include the higher prices the general public is forced to pay by price controls because OPA policies have driven low-priced goods, shirts, shoes, overalls, house dresses, off the market. This inflation does not include the excessive prices for the constantly increasing black-market goods which OPA creates and officially admits it cannot stop. This picture of inflation does not include the inflation at present being hidden by Government subsidies, which OPA says amount to 8% in the cost of food. Subsidies not paid by new taxes are paid by new deficits.

OPA has not stopped inflation. It is only trying to conceal inflation from the people.

OPA is a camouflage operation to hide the true facts of Government weaknesses in its fiscal policy.

Sooner or later, this hidden inflation has to be faced by the American consumer in the prices of the goods he buys. Mr. Bowles admits that whenever price controls are taken off, this hidden inflation will cause prices to rise.

NAM's Position

NAM's position is that the sooner the bad news of inflation is revealed to the people, and the sooner we get back to free and full competitive production and pricing, the sooner the danger of runaway inflation will be removed.

Inflation is not something to talk about in terms of the billions of dollars that the nation owes in debt. It must be talked about in terms of what is owed by the people who pay for government. The people can't pass the debt along. They are the end of the line. Inflation with its blighting, greedy hand, can make the workingman's wages, though they be more and more, actually be worth less and less.

There always is an "inflationary potential" in every highly developed economic system. This "inflationary potential" consists of all the currency, bank deposits Government bonds, savings, corporation bonds, mortgages, stocks—in brief, everything in the form of "liquid savings" that can be converted into cash and used for the purchase of goods—plus the borrowing capacity of all the people and all businesses. This is the "potential" buying power that exists at all times—the real "inflationary potential."

Inflation is caused, not by the mere existence of these "liquid savings." It is caused by people actively using these "liquid savings" to bid up prices. Runaway inflation is caused by people becoming frightened over the future value of their "liquid savings" and rushing to convert them into goods—no matter what price they have to pay for goods.

What can cause people to get frightened over the future value of their money and "liquid savings"?

There are three basic causes:

1. People may get frightened because of Government financial policies. Continued large deficits are likely to have this effect. Continuing the money-printing presses is almost certain to do so.

2. People may get frightened because of continuing and growing shortages of goods. Conversely, unless the Government is running the printing presses, a rising avalanche of goods gives people confidence in the future value of their money.

3. People may get frightened because of scare propaganda—statements that prices are going up—that the nation is on the verge of a disastrous inflation, etc.

Bowles' Position

Mr. Bowles said on Feb. 18: "It would be difficult to exaggerate the gravity of the inflationary crisis we face . . . Everywhere the inflationary pressures have reached explosive proportions."

This statement is not true. We are still in the **first** stage of inflation. We must avoid the **second**, or runaway, stage. In February, the public bought $60 million Government bonds more than it redeemed. This is clear evidence of continuing confidence in the ability of this nation to pay its debt.

Rising prices are not causes of inflation. They are the symptoms of inflation. Subsidies are camouflage that hide inflation. If the people's savings, their war bonds, the money in their pockets, their insurance, their wages, are not to become worth less and less; if the cost of living, goods, clothes, household furnishings, daily expenses, are not to go higher, this inflation must be stopped **now**. Inflation can be stopped whenever the Administration quits spending the nation's money in billions in exchange for votes of pressure groups.

Safeguards Against Runaway Inflation

Runaway inflation **can** be averted by three principal safeguards.

The first inflation safeguard is all-out production of the thousands of things the American public wants and that business wants to produce—washing machines, automobiles, radios, clothes, shoes, food, farm machinery, building materials, furniture, etc. We need to test every Administration policy by the question, Will it help production? Our general attitude must be that if a policy restricts production, the burden of proof has to be on those who advance the policy and the proof must be overwhelming.

The OPA gives lip service to the thesis that it wants to remove controls; but its operation hinders production. With 3,000,000 businesses to regulate and 8,000,000 prices to set and police, it is not possible to prevent delays and confusion—with some prices too high, others too low.

With some prices too high, others too low, production will remain out of balance because producers will naturally concentrate on turning out those goods which are most profitable. Attempts to correct this unbalance by price adjustments will always create still more points of unbalance. Fixing prices on the basis of OPA's theoretical estimates of future production and costs, rather than on established facts, will make production dependent upon the accuracy of OPA guesses, instead of upon the realities of the marketplace. And holding profits 25% below the 1936-39 level and figuring profits upon net worth instead of upon the volume of sales destroys the incentive to try to get all-out production.

Effects of OPA Policy

Continuation of OPA means limited production, continued shortages, and an even greater danger of inflation.

What can we look forward to if price controls on manufactured goods are removed before supply catches up with demand on an item-by-item basis—before there are enough automobiles to meet pent-up demand?

Would prices skyrocket? Many people think so.

But do you think women would stand in line to buy nylons at $6 or $8 a pair if they knew that next month they would be $2? Do you think people would pay $10,000 for an automobile if they are convinced that in three or six months they can buy the same car for $1,000? Do you think a store could sell a simple white shirt for $10 if people knew that in a matter of weeks they could buy all the shirts they want at $1.95? People do not bid up prices when an avalanche of goods is coming onto the market. People bid up prices only when they fear continuous and increasing shortages.

So far, the people as a whole have shown no inclination to squander their wartime savings. There has been no significant increase in war bond redemptions, no drawing down of savings accounts, no wild rush to convert money into goods. If we have full production and full employment at good wages there is no reason why savings should be spent for current purchases. With full employment at good wages, people can buy automobiles, radios, washing machines, etc., out of current earnings, as they always have in the past. Every dollar of goods produced simultaneously creates a dollar of buying power—in wages, interest or profits. If we produce $150 billion of goods and services, we thereby automatically create $150 billion of buying power.

Prices are fixed by competition in free markets, not by the money supply.

The free market is the effort of every manufacturer to meet the wishes of the American housewife, to give her what she wants at a price she thinks is fair. That is **real** price control. Price control by the American housewife is the kind of price control that assures that the right things get made in the right quantities. Price control by the American housewife is the kind of price control that assures maximum production—jobs and prosperity for all.

Labor Policy

The second needed inflation safeguard is a labor policy that is non-inflationary. Wage increases without equivalent increases in production are inflation. At the war's end, the Administration predicted eight million unemployed. It prepared for deflation. It sponsored wage increases. To the Administration's surprise, reconversion by industry was promptly completed. The public held their savings waiting for production of goods. Therefore, wage increases, intended to prevent deflation, actually increased inflation. Secretary Wallace's formula, used to obtain wage increases, was disavowed by him as being worthless two days after the General Motors strike was settled. The Administration's contribution to inflation, therefore, is not confined to its prevention of production and its increase of debt.

The Administration has no labor policy as such. It is a jerry-built patchwork of expediencies. It is based on subservience of the Administration to CIO.

Labor disputes can be settled peacefully with justice to labor, industry, the public and investors when the Administration quits bailing labor out.

NAM Labor Program

American business management believes that it has a constructive program for bringing about industrial peace. The program is briefly this:

1. There should be equality before the law, and equality of responsibility, between labor and management.

2. Government should serve solely as an umpire; and for the people as a whole, not as a partisan suporting either management or labor.

3. Collective bargaining should be conducted just as close as possible to the plant level where disputes arise.

Such a program for industrial peace would in no sense curtail the basic rise of labor.

It would make possible the protection of the public interest through assuring a continuous flow of goods on the market at prices which would be fair to the public. At the same time it would enable management to pay good wages to its workers and earn a fair profit for those who risk their money in American industry.

End Deficit Financing

The third safeguard is to end deficit financing. Deficit financing creates money, credit and purchasing power without producing the goods and services which alone can validate the money issued by the Administration.

The budget should be balanced. Before the war, $40 billion was spent to create employment, but in January, 1940, 10 million were unemployed.

The war had to be won. Money had to be spent. No one regrets the money losses incurred. The goods produced rust and rot on battlefields all over the world. The money printed is not offset by goods now in existence. The war has ended everywhere in the world except in Washington.

The need for economy is greater than ever. The Tax Foundation has demonstrated that the budget can be balanced at $20 billion or less. This would permit reduction of taxes. It would create incentives to investment. Investment would buy tools. Tools would create jobs. Prosperity could be put on a permanent basis by correct fiscal policy.

Correct fiscal policy is well known in New England. It is well known in Tokyo. In January, MacArthur required the Japanese Government to follow a correct fiscal policy. He required the Japanese Government to do in Japan what our own Administration must do in America if runaway inflation is to be prevented. The Allied command demanded that deficit financing cease, and added this order:

1. The Japanese Government must cut expenses to the minimum;

2. Deficits must be financed from the saving of the Japanese people—or from actual bank deposits rather than from newly printed currency;

3. The Japanese Government must refrain from selling to the Bank of Japan or other banks hypothetical obligations demanding in exchange actual circulating currency.

MacArthur's fiscal policy for Japan is a plan for solvency. It should be New England's plan for America. Federal spending must be reduced if we are to amortize the debt of over $279 billion with which this nation is burdened. We must stop adding to the debt now; not five years hence. Nations, like individuals, pay their debts only when they plan to do so. Debt retirement at the rate of $1 billion, $2 billion or even $3 billion a year would be regarded as only token payment in view of the size of the debt. Debt reduction would be a lasting benefit. Any advantage from liberal spending on current services would be temporary.

The National Association of Manufacturers believes that a $20 billion budget, including debt reduction, will be adequate to serve this nation. The revenue of the current fiscal year is figured by the Government at $31.5 billion. Expenditures of $35.8 billion are planned. This is $4.3 billion more than the revenue. If the deficit is $4 billion, the supply of money actively seeking goods is immediately increased by that amount. The supply of goods in the market remains the same. Prices go up. That is inflation. To the Government, any proposal to cut expenditures is politically unwelcome. Always a heavy tax load to support Government expenditures, suppresses production.

The explosive nature of deficit spending arises from the fact that it is borrowed money—money which someone did not want to use for consumption. It is paid out by the Government,

however, largely to public servants who will use most of it immediately on consumption. The failure of the Government to collect sufficient taxes to avoid a deficit, leaves the uncollected taxes in the pockets of the public. Shortly the uncollected tax money will enter the market in search of goods.

Limits on the production of money and the creation of debt must be established if further inflation is to be prevented.

The dollar taken in by businessmen during a runaway inflation would shrink as fast as any others. In disposing of goods, the businessman would have little chance to replace them. No one would want his money. The inflation history of Europe after World War I shows that it is a gamble where you can't win. You sell yourself out of business.

Expand the Economy to Meet Expanded Debt

The only way to handle the Government debt is to expand the economy to fit the debt. The debt can be destroyed by deliberate repudiation. It can also be destroyed by runaway inflation. The necessity of expanding the economy to the scale of the debt makes labor peace vitally important. We cannot have production stoppages. Labor troubles are directly tied to OPA in the new wage-price policy of the Administration. The Administration says it fears inflation, but it inflates wages and restricts production. If the Administration wanted inflation, its present policy would assure it.

Recognition is given to the inflationary pressure of the monies proposed for loans to foreign governments, so far as the monies have call on American goods. Yet there is no indication of the slightest consideration by the Administration of the inflationary pressure of a deficit equal to the proposed British loan, when that deficit comes onto the market in the hands of American public servants, seeking goods.

The Administration improvises one unfortunate policy to correct another unfortunate policy. The attempt is being made through the OPA to correct the inflationary method of financing the war, which piled up such huge liquid debt. The Administration is using OPA to cover up a basically unsound position, instead of correcting it.

The adoption of a three-fold program — sound fiscal policy, elimination of price controls to permit production, sound wage policy—would not prevent all price increases from here on.

Present Ceilings Will Not Hold

Nothing can prevent price increases above the present ceilings. That is true because of the vast accumulation of purchasing power in the hands of the public as a result of the war financing, and because of the Government's drive to increase the overall level of wages by 15% to 20%. Those factors assure that we will have to pay a price for what has already been done. Our problem is to keep this price as low as possible. If we fail to take constructive action; if we continue to pile up purchasing power, continue to curtail production, continue to force increases in the cost of production, the price is almost certain to become unbearable.

The Government debt overhangs your job, your chattels and whatever savings that you have. Your policy of deficit financing levies its costs against your living and your future just as surely as it pays interest on Government bonds. Deficit financing reduces the value of every insurance policy on every life in this hall, on every relative and friend you have, by reducing the purchasing power of the money. Deficit financing reduces the value of every security that you hold, of every Government bond you have bought; of every mortgage, if any, that you own. Deficit financing goes through your safe deposit box and reduces the values in it without opening the box. Deficit financing reduces the value of every savings bank deposit without changing the credits in your bank book. Deficit financing reduces the value of the money in your pocket while you hold it, without changing the numerals on the folding money or the figures on your coins.

Deficit financing robs all the elderly who on the sunset side of life depend on fixed incomes or annuities, and who lack the strength to re-enter the ranks of workers. Deficit financing reduces the values of trusts for old and young, for retirement or for education. Deficit financing, in peacetime, is a device to give gifts to pressure groups at the expense of all the people. It is a selfish plan to enjoy privileges and immunities in the present at the expense of our children and grandchildren in the future. Deficit financing is a war on all American savings from Plymouth Rock and Jamestown until now, without a declaration of war. Deficit financing is an invasion of the purchasing power of the poor. It reduces the amount of groceries the housewife can purchase by increasing their prices. It increases the rent of the poor by adding the increased tax bill of the landlord. Deficit financing raises the costs of shoes and clothing by increasing the costs of the farmer who supplies cotton, wool and leather. Deficit financing invalidates the wage increases of labor by reducing the purchasing power of the money with which the increases are paid. Deficit financing menaces the security of all Civil Service employees, of all white-collar workers who function as servants in all parts of the economy but not as pressure groups.

No Realistic Budget Plan

The Administration has no realistic plan to balance the budget. Until it is balanced, we cannot sweep back the rising tide of inflation. There are plans to keep the budget unbalanced. Administration representatives travel America and abroad to invent and create new causes that pressure groups will support. These are being offered as concessions in anticipation of votes. This Administration policy, if pursued, must gradually reduce a rich people to poverty.

The sound fiscal policies that made New England great are needed in the Administration to keep America solvent. The Administration must quit searching for causes behind which pressure groups can be organized to press for expenditures of billions of dollars in exchange for votes. The budget must be balanced at tax levels that will assist production. The tax funds should fix the needed peacetime Administration expenditures at less than $20 billion.

The Administration must quit bailing out labor with inflation each time it gets into difficulty. The present policy of inflation by wage injections in billions of dollars is at the cost of every citizen of Boston and at the cost of the total economy.

The Administration must take restrictions off production. Production of goods cannot entirely validate the nation's outstanding debt. It can assist its solvency.

Production, if unfettered by the Administration, will increase the making of much needed goods as a partial offset to the national debt. If it is not unfettered, the debt will increase as the nation moves toward insolvency.

The Administration should quit pushing its debt into banks by coercive methods. It should transfer more of the bonds now in banks into the hands of the people, where the debt belongs. This transfer will enable banks to assist production by increasing available funds. The Administration's policy should be determined by what assists production. It should be determined by what reduces debt. On this sound fiscal program, national solvency can increase; tools can increase; venture capital would return to the market. Jobs can be provided, wages can be raised, and prosperity can be made available for all of the people.

On this sound program, New England grew to greatness. Our nation became great.

It can again be great when we live within our income and liberty is restored to all the people.

Schram Scores Curbs on Free Markets

(Continued from page 1637)

ings banks. In this period of vast inflationary potentials and when concern as to the future purchasing power of the dollar is in the minds of so many people, it is particularly important that our national debt policy be directed (1) to maintaining the attractiveness of government securities to non-bank holders who might otherwise convert them, (2) to intercepting the flow of current income which would otherwise add to the demand for goods and services, and (3) to avoiding further increases in bank holdings.

"The following tabulation shows the distribution of government interest-bearing obligations at the end of November, 1945 (in millions of dollars):

	Millions	Percentage of Total
U. S. Govt. Agencies and Trust Funds	$26,844	10.2%
Federal Reserve Banks	23,472	8.9
Commercial Banks	85,600	32.5
Mutual Savings Banks	9,800	3.7
Insurance Companies	22,500	8.5
Other Investors' holdings:		
Marketable Securities	40,200	15.3
Non-Marketable Securities	55,000	20.9
Total	$263,416	100.0%

"Almost one-third of the total debt today is held by commercial banks which also, during the next several years, may have to assume a substantial part of any securities issued to replace non-marketable securities held by private investors when they are turned in for redemption.

"Treasury policy of recent years has been dominated, insofar as the entire structure of interest rates is concerned, by the desire to keep down the cost of borrowing. But the question now arises whether the saving in interest will not have consequences more costly in the end than rates of interest sufficient to provide a sounder money market. Higher interest rates would make it possible for banks to sell some of their government bond holdings to non-inflationary buyers of the types above mentioned. Idle bank deposits would be attracted, reducing inflationary tendencies; and currency in circulation might be reduced, adding to bank reserves.

"The whittling away of interest rates has resulted in real hardship to institutions and individuals unable to shift their funds or assume the risks of equity investments, and has made a major problem for life insurance companies.

"The establishment of the wisest conceivable policy for the management of our national debt is a task for the best intelligence and statesmanship in this country. It is no exaggeration to say that the welfare of every man, woman and child is involved. Debt policy cannot be divorced from tax policy and other fiscal policies. Their inter-relationship is such as to require a coordinated program. The problem is a grave one and should be faced courageously without permitting any single group, whether government or private, to impose its views or wishes regardless of the implications and consequences to the economy as a whole. I strongly urge that an able commission be set up representing Congress, the Treasury, the Federal Reserve Board, the commercial banks, the large non-banking institutions and other groups to study this whole question and submit recommendations looking to the establishment of the broad national policy which is so urgently needed."

Volume of Exchange Transactions

Mr. Schram reported that "there was a further increase last year in the volume of share transactions. A comparison with recent years is particularly interesting in that it shows to what extent the securities business has recovered from its extremely low point of 1942 when the volume of transactions on the Exchange was the smallest for any year since 1913 (not counting 1914 during which the Exchange was closed for several months).

Year—	Total Reported Share Volume	Total Shares Outstanding (Year-end)
1942	125,685,298	1,470,502,630
1943	278,741,765	1,489,367,030
1944	263,074,018	1,492,277,716
1945	377,563,575	1,592,111,825

Continuing, Mr. Schram noted:

"The volume of share trading in 1945, as a matter of fact, was smaller than the average annual volume over the past 25 years and about equal to the 1920-1944 average with the abnormal years of 1928 and 1929 left out of the calculation.

"It is important that these and other facts relating to our capital markets be clearly understood. Any misinterpretation of the facts could operate to the detriment of our markets at a time when their smooth functioning without unnecessary restraint is essential if we are to have a free flow of capital into productive enterprise. The financing of the reconversion of our war-expanded industries to a peacetime basis and the rehabilitation of large portions of the world, devastated and industrially impoverished by years of total war, will require healthy and efficient capital markets.

Net Income for 1945

"The consolidated net income of the Exchange and its affiliated companies for 1945 was $856,026, compared with $673,758 for 1944, an increase of approximately $182,000. In addition, the Exchange received as contributions to the capital investment of the Exchange from initiation fees $248,000 in 1945, compared with similar fees of $160,000 during 1944.

"The expanding volume of trading on the Exchange resulted in substantial increases both in the income and expenses of the Exchange. Total income for 1945 was $7,509,850, an increase of $2,044,778 over income for 1944. A large portion of the increase was accounted for in listing fees received during the year, which totaled $1,718,000 for 1945 compared with $741,000 for 1944. Other items of income directly related to the volume of trading on the Exchange also increased during the year. The one item of income which showed a substantial reduction during the year was that of rents which decreased by approximately $57,000, this being due to the loss during the early part of the year of the principal tenant in the 20 Broad Street Building.

Expenses for 1945

"Expenses for 1945 exceeded 1944 expenses by approximately $1,834,000. The advertising program mentioned earlier accounted for $464,000 of this increase; salaries and wages, including bonuses paid to employees during the year, increased by $671,000, and Federal income taxes were up by $528,000. The large increase in the item of Federal taxes is due to the fact that in 1944 the Exchange received the benefit of the carry-over provisions of the tax law with respect to previous years' losses.

"During the year the Exchange adopted an 'Incentive Compensation Bonus Plan' whereby amounts of regular additional compensation to employees are related to the volume of trading on the Exchange and the number of employees on our active payroll for the period. In addition, the Exchange paid to employees a year-end bonus for 1945 of 10%.

"The item of 'professional services research' represents the cost of the special studies prepared for the Board of Governors during the year with reference to floor trading and the operation of the specialist system.

"With the end of the war the Exchange was fortunate in re-obtaining the services of a substantial number of the more than 300 employees who had been on leave of absence while with the armed services. As of the date this report was prepared, there were approximately 125 employees still on leave of absence; their return will permit us to return completely to a peacetime basis of operation. As of Dec. 31, 1945, the Exchange and its affiliated companies had on their active payrolls a total of 1,160 employees, compared with 975 as of the beginning of the year."

Burr & Co. Offers L. E. Carpenter Stock

An underwriting syndicate headed by Burr & Co., Inc., made a public offering March 27 of 129,242 shares of L. E. Carpenter & Co. ($1 par) common stock at $10.75 per share.

Proceeds from the sale of 50,000 of the shares, which are being sold for the account of the company, will be used for construction of a permanent addition to the Wharton, N. J., plant and for the acquisition and installation of additional productive facilities, as well as the moving of certain equipment from the Newark plant to the new Wharton addition. The other 79,242 shares are being offered for the account of stockholders.

Company was organized on July 2, 1925, under New Jersey laws, for the purpose of taking over that part of the business of the Zapon Company which was represented by the manufacture and sale of lightweight coated fabrics commonly known as imitation or artificial leather or leather cloth.

For the year 1945 the company has reported total sales of $9.316,528, and net income of $205,401.

Russell Rowles Opens Own Investment Firm

HOUSTON, TEXAS—Russell R. Rowles has formed Rowles & Co. with offices in the Bankers Mortgage Building to act as dealers in investment securities. Mr. Rowles was formerly an officer of Dittmar & Co. and Mahan, Dittmar & Co., in charge of the Houston office.

Rude Awakening!

(Continued from page 1630)

cuddling and courting the Russians as a "peace-loving nation," as an integral part of a naively conceived One World, as a kind of "democracy" that cannot do wrong. As a matter of fact, the fundamental axioms of the Churchill-Roosevelt foreign policy were two: (1) to sacrifice the Atlantic Charter and other principles, if necessary, for securing Russian cooperation in "permanent" peace; (2) that Stalin is a perfect gentleman with whom one can divide up the world and rely on his word that all he wants is to eliminate the danger of a *cordon sanitaire* around Russia and to guarantee thereby his country's "security."

Central Europe was handed out openly (Northern China and Korea in a more camouflaged fashion) to Russian control with the expectation that Stalin will respect the vested interests of the West. It was a rude awakening in September, at the foreign ministers' meeting, when Molotov just would not remember the unwritten deal. Coming on top of all other violations of the letter and spirit of agreements, and of blocking all reorganization or reconstruction in the occupied territories and beyond, it meant the complete fiasco of the Allied policy of appeasement.

What brought about a far-reaching revision of American foreign policy is, of course, not a return to the ideals of the Atlantic Charter. The Four Freedoms of Iran and Turkey are of no more ethical value to the State Department (and, for that matter, to the Foreign Office) than the inalienable rights of Poland and Yugoslavia, which had been sold down the Volga. It was British, and to lesser extent, Chinese pressure. Chiang Kai-shek is either so subdued by our double-dealings with his Communists or by the Russian show of force that he seemed to submit to a foul compromise. But Chinese public opinion is not likely to submit. Its old nationalistic enthusiasm, greatly enhanced through seven years of war and immense sufferings, is inflamed by the looting of Manchuria and the obvious attempt to apply sovietization on the Outer Mongolian pattern to northeastern China as well. China is being carried by a nationalistic wave against Russia as it was carried against Japan in 1937. Washington is faced with the explosive prospect of a Sino-Russian conflict unless it is stopped at the outset.

Far more urgent and effective is London's pressure. In despair over the future of the Empire, British officials make no bones about their resolution, implied in Churchill's speech, to fight if the Russians penetrate forcefully into Turkey and Iraq, or to the Persian Gulf and the Mediterranean. They cannot permit a Russian foothold in Italy (via Trieste), nor the cutting "across the Empire's throat" by way of Salonika, Tripolitania and Eritrea. They also are aware of the fact that Russian sabotaging of every reorgnization in Europe (as in Korea) blocks the conclusion of peace treaties, and that the Soviet policy of an "iron curtain" around the occupied lands, which are being systematically bolshevized, disrupts Europe's economic system, reducing to nil the chances of its recovery, and therefore those of Britain as well.

The New Diplomacy

Something had to be done. So far, what is done in the first place is to follow Vandenberg's profound advice, and talk "bluntly" to the Russians, hoping to frighten them. It was a shrewd move to send Churchill to the front—and no one familiar with such operations doubts that he was being sent—to bring home to Moscow the threat of an Anglo-American alliance in a fashion that might be denied without losing face—to bluff without running the risk that the bluff might be called. That we mean "business" was brought home to the Russians in many more ways. The official and semi-official propaganda machine of this country has been geared suddenly against the Soviets, obviously to convey the impression that the nation stands for the Administration's "toughened-up" line. Since late February, American occupation authorities in Berlin have changed their tenor, too: instead of courting the Russians, they have turned pro-British on every question. The announcement that American-equipped and trained Chinese divisions are to be shipped from Burma to Manchuria is an even more impressive "diplomatic" gesture. Public utterances of high military authorities in discussing the modalities of a new American mobilization, and the Administration's emphasis on renewing the draft, belong in the same chapter. So does its decided attitude of bringing the Iranian question before UNO. The evident support to bolster Persian and Turkish resistance completes the picture.

On the other hand, strenuous efforts are underway to get over the crisis and save the UNO, not so much out of fear of a war with Russia, which the UNO could not stop, and which the Russians are not likely to want, but rather to maintain the international organization itself. It has to be kept going as a cornersone of the Administration's policy to win coming elections at home. They cannot let it go on the rocks without losing a most important pillar on which the prospects of reelection rest. Accordingly, all attempts will be made to pacify the Soviets. The British are dissolving the Polish army of General Anders, once the "gallant Allies," to be thrown on the street. Oil concessions in Iran may be offered on a "fraternal" basis, as the neutralization of the Dardanelles had been offered before. London may accede to a Russian free port on the Persian Gulf, and to joint trusteeships over former Italian colonies; in short, to any reasonable claim that does not involve new Soviet military footholds.

What Is Russia Up To?

But will that satisfy the Russians? To the Anglo-Saxon mind, their behavior is inexplicable. It is not consistent with the high ideals for which they are supposed to stand, nor with the alleged cleavage between their objectives and those of the Fascists. It seems nonsensical for Russia to forego all political and financial advantages of the phenomenal Anglo-American good will, and to face the doubtful potentialities of another devastating war for the sheer benefit of some land-grabbing. It's all so puzzling, due to the complete misinformation which was fed for years to the Western public. During the war, it was fed on the uptopian idea that the Bolsheviks ceased to be utopians—that they have become just another crowd of hard-headed businessmen and democratic patriots. After victory, this myth had to be abandoned because the Soviets made it perfectly plain, by words and deeds, that they are as totalitarian and collectivist as they have ever been. Promptly, a new myth was formed. The new fairy tale ran in terms of Russia being fully occupied with building up her collectivist system; therefore, and since she has an excess of raw materials and manpower, she will have no desire to interfere with the peaceful development of other countries. At worst, she will be self-contained and isolationist. The postwar world was pictured accordingly as a sort of beauty contest between economic systems, a new form of international competition: who can make the world happiest and do so fastest?

The awakening from this naive dreaming was a rude one, too, but it did not end the mythology. In the face of obvious Russian aggression and expansion, of the ruthless exploitation and enslavement of some 150 million non-Russians, the trustful had to fall back on a last line of fabrication: that the Soviets merely want to insure the "security" of their frontiers, meaning no harm otherwise. This was the original Churchill - Roosevelt justification for the parceling out of Central Europe; it is the official Soviet line to which the Davies, Peppers, and Wallaces cling. Incidentally, Ludendorff and Hitler never asked for more than the "security" of their frontiers. (Plus a few little colonies—the same as Stalin requests now.) The need for security is to subterfuge for every kind of imperialism. If the New York "Times" editorialized lately that we must not assume any other but security motives on Russia's part, especially no intent for world conquest or world revolution, then all it overlooked was that the sky is the only limit of the security claim, once it is conceived irrespective of the self-determination of other nations.

But assuming that the peace-loving Soviets (armed to the teeth, with those over 42 to demobilize by September and fresh classes called in) indulge only in security maneuvers, against whom are they directed? And why? After the elimination of the aggressors, should not the obvious generosity of the Western powers—at the expense of small nations—the expansion of Russia's frontiers and economic potentials, the guarantee by the UNO and all the international force behind it, in addition to her own immense power, offer sufficient security? The answer is no, and it is puzzling only to those who did not bother to study the deeper trends of Soviet foreign policy.

Russia's International Outlook

The mystery of Russia's alleged zigzag diplomacy can be solved with the aid of a few clues. It is devious only in appearance; in reality, it is as logical as circumtances permit. It began with Lenin's call for world revolution, which would have meant his own domination over the world. Since the failure of Leninism at the gates of Warsaw, in 1920, bolshevik ambitions have been curtailed, and at times, when they were on the defensive, seemingly reversed. But whenever the opportunity arises for expansion, be it by direct military action of the Prussian type, by economic penetration on the old British pattern, or along the Marxian lines of revolutionary boring from the inside, the Soviets almost never miss the chance.

While their basic attitude has not varied an iota (their Middle Eastern ambitions, e.g., take at present exactly the shape of the 1941 Molotov proposals to Ribbentrop), the emphasis shifted under Stalin from the general and long-run ideology toward specific and immediate goals. The underlying thought does not change, for reasons anchored not only in the present system of Russia and in her past history, but also in an ineradicable mentality typical of Eastern Europe—that reaches today as far west as Paris, and beyond. It is the naked Machiavellianism of power-politics, the ideology of the international jungle, the cynicism of *Real-Politik* carried over by the Bismarck-Ludendorff school into the twentieth century, that has corrupted thoroughly the Continental, especially also the Russian mind.

The Russian "Mind"

To bolsheviks (as to fascists), it is axiomatic that every powerful nation is on a ruthless hunt for treasure and might. They have nothing but contempt for the suggestion that our ideas of democracy and human rights are anything else than verbal "superstructures" to camouflage the underlying economic interests and political ambitions. Marxian education—is there someone left in Russia who had any other education?—is centered on the destruction of every belief, religious or profane, in any ideals inherent in capitalistic society. (Social - democrats, New Dealers and Labor parties are of course mere tools of the capitalists.) If the West makes concessions and courts the Soviets, it does so only because it is too weak to oppose them. If it does put up opposition, then the wickedness is evident. If we advocate the cause of small nations or the Open Door, we do so because that serves our purpose; to open up resources or markets for exploitation and to gain allies for wars of expansion. Therefore, Russia must use all means at her disposal to get the same results for herself. If we protect Iran, it is to grab its oil; the more reason for Moscow to do the grabbing first. Every businessman who tries to sell sewing machines or underwear is a glowing example of an exploitative capitalism; every weapon we do not give them, a proof of our warmongering imperialism. Small wonder that they have to defend themselves against such inhuman forces and all tricks are permissible.

De Gaulle is quoted as having said that a showdown between the U. S. A. and the U. S. S. R. is unavoidable; the only two world powers left, they are "naturally" antagonistic to one another. That's the way the continental mind of this generation works, raised in two world wars, endless balance-of-power intrigues, bloody revolutions, in *coup d'etats*, foreign occupations, and all kinds of lawlessness, to say nothing of bureaucratic dictatorships. Russian cynicism is fed in addition on the Marxian doctrine that pretends to debunk all ideologies (except its own).

In view of this mentality, the programmatic speeches of Stalin, Kalinin, Molotov and Kaganovich, delivered in the so-called election campaign of early February, should offer no surprise. Stalin solemnly announced that no peace is possible under capitalism. The Soviet leaders made no secret of their suspicions, nay convictions, about the fundamental hostility of the West against their paradise. They emphasized the absolute necessity of military preparedness and strong-arm policies to survive and to carry on their great experiment in economic and political dictatorship. Their actions tally with their words, with no riddle left in understanding why they push forward at the most propitious moment: when Britain is at her weakest, and the U. S. at its war-weariest state.

Through Soviet spectacles, enemies lurk behind every bush. Of course, most of it is their own doing, but that makes their position the more precarious. Property-minded middle classes and peasantries, the majorities everywhere, are natural enemies. So are the churches, especially the Vatican, with its immense spiritual influence. Wherever the Red Army goes, people turn anti-bolshevik, shown by overwhelming votes in Austria and Hungary. Their inability to grasp the Western point of view, the grudges of the past, the mutual suspicions of the present, the impasse in trying to get along on any important peacetime question, the bitter nationalism of the Russians aroused by Hitler's invasion, all contribute to the bolshevik conviction of a fundamental gap that no institutionalized formula can bridge.

Nor can it be overcome by a balance-of-power diplomacy, in which the Soviets have proven themselves past masters. They played one side or the other of the game, as it suited them, culminating in the alliance with Hitler. But no such game is possible any more. (Present-day France and Italy are poor substitutes.) The perpetual fear of being encircled by an overwhelming Anglo-American bloc has become a distinct possibility, with no Axis left to forge a counter plot. That drives the Kremlin in a near-hysterical fashion to arm; to force minor nations out of that potential ring and into Soviet domination; to acquire military bases wherever possible, and to break up the encirclement from the inside, as in France and China, with the aid of Communist parties.

The Peril to Peace

What makes the situation most perilous is the vested interest of Russia's rulers in this anti-occidental philosophy. It is intimately tied up with their own power-position which rests on State ownership and a ruthless autocracy; seclusion from abroad is the logical sequel to both. Democracy and capitalism thrive on the freedom of trade; it is poison to collectivism and dictatorship. The same holds, and more so, for other freedoms, except the freedom to bolshevise. The West longs for international cooperation from which it derives strength; Russia, being a lone wanderer, must break down or immunize all cooperation, unless put under her own thumb. Intervention in other people's affairs is taboo to the one side, as it is a prime requisite for the benefit of the other.

Moreover, Russia's internal stresses foster the trend toward both: expansion and isolation. One indication is the apparent rivalry between Molotov and Zdanov. Since 1943, five "independent" Soviet republics have been abolished; they were even more infested by fifth columns than the rest. The absorption of large territories with reluctant, if not hostile, populations means new strains as well as added strength. A colossal, multilingual army of crypto-literates, ebullient with hatred of foreigners, its appetite whetted by victory and looting, righteously convinced of the whole world's obligations to itself, has to be used abroad or else faced as a menace at home. The devastations of the war are not repaired by the plunder of the peace. The war has revealed deadly weaknesses of an industrial setup which is carried by untrained, overly-exploited and idolent masses. To bring it up to the dazzling pace of American progress, and to do so under mismanagement by bureaucrats and ideologists, will take some time, to put it mildly.

Enlarging the radius of action—that is what the sum total of underlying conditions dictate to the Soviets. Paradoxical as it may sound, their economy needs manpower and resources: to cure waste by volume, as their security demands to substitute territorial conquest for international goodwill. Constantly worried about the obvious industrial and military superiority of the Allies, they cannot forego expansion more than temporarily without risking disintegration. Unable and unwilling to visualize a world without basic conflicts (short of One World—theirs), they try to protect themselves against war by forcing guarantees which in turn create the vicious conflicts they dread.

That does not mean the necessity of war, certainly not in the near future. The Soviets are not ready for a real showdown (unless actually attacked), and are astute enough to avoid a losing battle. But it does mean unending tensions and crises, turning the peace into an armed truce, postponing reconstruction indefinitely, and formenting general uncertainties of the type that causes wild market gyrations.

The Outlook for Mortgage Lending

(Continued from page 1634)

creation of reserves against the losses which are certain to develop out of the present abnormal and artificial situation in housing. These lower rates, which allow very little margin of safety for losses, call for the most cautious and conservative operations in the history of mortgage lending. Yet, paradoxically, we see both private and institutional lenders in this field making many loans on the basis of valuations which cannot be justified, even at the moment, to say nothing of the "long run" justification. The greatest shortcoming, in fact the curse, of low interest rates is that they frequently force lenders, in the unceasing search for satisfactory return, into marginal loans, excess valuations, and other unwise practices.

Today, I want to say a few words about the outlook for interest rates and a great many words about the economics of real estate valuation.

The Outlook for Interest Rates

Firstly, there are many reasons, in addition to the increase in bank deposits caused by Government bond purchases, for the prevailing "low" interest rates. Many economists seeking an explanation of the decline in rates look at the vast monetization of the public debt and cry, "Eureka!"; but they should look further—there are other important economic and nati, Cincinnati, O., March 22, 1946. financial pressures involved.

Historically, the basic trend of interest rates has long been downward throughout the world. Without in any way implying that the United States has a mature economy (which is another way of saying that we have reached the end of our "economic rope"). it is incontrovertible that as an economy gets older the supply of capital increases, under conditions of security, and the demand for capital does not show a proportionate increase. That is, while demand increases absolutely, it does not increase *relatively*. This development has been intensified in the United States by our great natural resources and our enormous productivity. These, coupled with our economic and financial policies of the last 20 years, would have given us lower interest rates even if we had not had World War II and its sales of bonds to the banks.

Also, the exemption by Providence of our country from the heavy physical destruction suffered by most of the other countries of the world further increases the supply of capital and credit relative to the demand. I might add, too, that the unparalleled safety which our country has enjoyed since Civil War days has caused a great deal of the liquid capital of the world to seek sanctuary on our shores.

Still another important factor in lowering interest rates is the modern banking system which we have today. As we economize in the use of gold and erect more and more of a credit structure on a given quantity of gold, the supply of credit so created presses on demand. That is, as our confidence in our banking system increases, as we refine our credit granting methods, and as we learn to safely have additional dollars of credit outstanding against a dollar of gold, we increase the supply of purchasing power without, necessarily, increasing the demand. This, of course, forces interest rates down.

Increasing Investment Capital

In the capital market the rate and volume of private accumulation have increased. The shift of population from the country to the cities has forced more and more people to seek economic security through institutional savings. The great increase in the volume of life insurance, annuities and pension plans, and the great growth of thrift institutions, such as the Federal Savings and Loan Associations, graphically indicate the tremendous increase in the supply of capital seeking investment.

To come even closer home, the widespread inclusion of amortization provisions in real estate mortgages in recent years furnishes a *new* and continuing supply of funds to the capital market which must not be underestimated, particularly in its effects on interest rates.

Now let us look at the influence of public debt monetization upon interest rates. At the beginning of January, 1946, the commercial banks and the Federal Reserve banks held $114,000,000,000, or 41.3%, of the $276,000,000,000, public debt outstanding. The savings banks held an additional $11,000,000,000 which gives a total holding by all banks of $125,000,000,000, or 45.3% of the total debt. The purchase of these securities has caused an equivalent increase in deposits and money in circulation. Thus, corporations and individuals have an additional $125,000,000,000 to spend *over and over again*, which they would not have had otherwise.

Parenthetically, may I point out that only $64,000,000,000 of the $276,000,000,000 public debt is directly held in the hands of individuals and, of course, a sizable proportion of that $64,000,000,000 is financed with bank credit.

Forces Increasing Bank Deposits

To return to the swollen total of $150,000,000,000 of bank deposits, I know of at least six powerful forces which will increase deposits still further; and I do not know of a single economic factor of any consequence which will decrease deposits in the next year or so.

So, even if the Treasury did not want low interest rates, the natural economic equilibrium would be in the direction of stability at present levels, or even lower levels. But, the Treasury *does* want low interest rates! And there is no question whatsoever in my mind as to the ability of the Government to keep interest rates low. I will even go a step further and say that interest rates may go lower than at present, if the Treasury does not take definite steps to support the present pattern and level of rates.

In this connection, I must point out that there are many economists who maintain that the Government will be forced to put up interest rates to prevent wild inflation. I do not agree with their contention. I analyzed this contingency at length in a talk which appears in full in the January 10 issue of the "Commercial and Financial Chronicle." May I refer you to it for an exposition of the relation of interest rates and inflation.

So much for the supply side.

As for the demand side, I do not have enough time this afternoon to make a complete analysis for you. Sufficient to say that other than credit for consumers. and mortgage money for home building, which will be in strong demand. I do not foresee any great demand for credit or capital in the next year or so.

The present supply of both long and short-term capital appears to be more than equal to any demands which are likely to be experienced—and the supply is increasing! On the basis of the pertinent facts, then, it seems indisputable to me that the era of low interest rates, which we have entered, will be with us for a long time.

Low Interest and Real Estate Mortgages

Now let us see how this lower interest level affects mortgages and real estate. As might be expected, mortgage rates have held their relative position in the pattern of interest rates and have declined in line with them. Mortgage rates now vary from 3½% to 4½%, with most large, good urban mortgages being made at 4%. Small mortgages on private homes are, of course, somewhat higher, with some lenders in the traditional pattern of rugged individualism getting as much as 6% here and there. But, in general, competition, among the various lenders, for mortgages is very keen and not only have rates declined, but what is far more important, the appraised values of properties have been materially increased. And, please note, these *increases in valuation have been made by the lenders!*

On Jan. 3, I reassured the Association of Commerce of the City of New Orleans in the following words:

"I do not fear inflation as the term is understood in Europe—a wild, unreasoning increase in prices. The United States is in the best position of any nation in the world because we have no direct war damage, our productive facilities are far beyond the needs of the country and we have by far the strongest financial position of banks, corporations, and individuals—both credit and capital. Goods can be produced in this country to meet even fantastic demands. And, *goods are the real antidote to inflation.* Furthermore, in the past, inflations have always arisen from depressions—never from booms. And, aren't we going to have a boom next year? Higher prices, yes; inflation, no."

But when I said that there was no probability of inflation in the United States, I had my fingers crossed on real estate. Speculators, AAA allotment chasers, city people seeking a hedge against inflation, black market operators fleeing income taxes, individuals with swollen war earnings and a large assortment of plain, old-fashioned suckers have rushed in and driven farm land in many areas and states to unconscionably high levels. Also, developments in many suburban areas have been almost as dangerous. And here is the real tragedy of the situation: Many lenders have contributed to this unhealthy development instead of exercising sorely needed restraining influences.

Of course, there are current economic reasons for these developments—reasons but not justification for the actions of both lenders and borrowers. Among these reasons. the following should be put high on the list:

1. The supply of credit and capital seeking investment employment is greater than ever before.
2. There is a serious fear of inflation and a general belief that real estate is a good hedge against inflation.
3. The supply of available mortgages has been severely limited by the restricted private building activity of the war years and the rapid repayment of mortgages through amortization and otherwise by mortgagors.
4. The cost of construction has increased some 35% over the prewar figure.
5. Many people fear that still further increases in the cost of construction will take place.
6. There is a real housing shortage.

To summarize: The fear of inflation, the higher construction costs, and the expectation that costs will go even higher, coupled with the housing shortage, have in combination caused the rapid rise in property values.

The Outlook for Real Estate

Let us now turn our attention to the outlook for real estate. Before we go any further, however, it might be well to take a look at the housing shortage. Firstly, the assumption that the shortage is chiefly the result of the cessation of building construction during the war is not borne out by the facts. Thus, under the war housing program, between July 1, 1940, and Aug. 31, 1945, there were built 2,290,731 family units. 1,658,007 single-person units and 81,136 stop-gap accommodations giving a grand total of 4,029,875 accommodations converted or built during a period when many think construction was at a standstill!

Before the war there was no housing shortage; in fact, it was the opposite. What, then, has happened to make it impossible now to find a vacant apartment or an empty house? Of course, there have been many wartime marriages and, too, the number of separate families is rapidly increasing, but to my mind these do not completely explain the shortage. Is not the high level of income an important reason? Some people now maintain a *city* home *and* a country home where *one* would do if times were not good. Other people formerly satisfied with hall bedrooms now demand apartments. Still others refuse to "double-up" with the old folks although they would be glad to have the opportunity to do so if the normal economic compulsion were present. May I say that, in my opinion, unemployment and declining payrolls could remedy the housing shortage practically overnight, which is certainly much faster than the construction industry can do it!

However, I do not anticipate heavy unemployment in the next two or three years, and it will take at least that long for the building industry to overtake the present shortage. So, we can safely estimate that the shortage of housing will continue for another two to three years. But, after that, what?

It seems clear that building costs will rise during this initial catch-up period with the result that labor-saving methods will have to be introduced if construction is to continue at a high level. And, when you consider the millions of substandard housing units our people now occupy, the opportunity which confronts the building industry is indeed great; but this opportunity does not lie along the road of higher costs. Housing is not immune to the economic limitations of "ability to pay." For example, the National Housing Agency estimates that out of a total housing need of 12,600,000 units at least 8,400,000 units would have to rent for *less* than $50 per month. Public housing and slum clearance in large volume may, therefore, be expected to get under way in the next two or three years. This will adversely affect the value of a great deal of present property, particularly that occupied by the low income groups.

Government policies will, also, adversely affect real estate values at the other end of the scale. I refer, particularly, to the effect on the value of luxury homes and apartments of the heavy Federal taxes, which we are certain to have in the future, as far as you and I can see. (To say nothing of urban tax burdens!) If you do lend on such properties, do it on a valuation *based on middle class occupancy!*

When the new houses and apartments adapted to modern needs, such as lack of domestic help and smaller families, become available, they will have a very unfavorable effect on the values of buildings erected before the war even though at lower costs. Also, in your valuations you should keep in mind that women are having more and more to say about housing. They are not interested in the beams and the solidity of construction. They don't worry about the foundation. They are not looking for a house which will last a hundred years; women don't like old things! No, they look for gadgets and labor-saving ideas and devices. And, the last thing in the world the modern woman wants is one of those substantial old houses with 10 to 15 rooms, such as the one in which her mother worked herself to death!

Effect of Obsolescence

Don't forget that all buildings are now five years older than they were before the war. Furthermore, practically all of them have heavy *unrealized obsolescence* because of social changes, changes in the American family itself, improved labor-saving gadgets, and heavier taxes. At present, this obsolescence is hidden by the heavy demand for housing and the strong rent structure, but it is there just the same, and it will become painfully obvious in the future.

Business property will be affected adversely by. the efforts which will be made to reduce the costs of distribution. The Herculean struggle, which we shall witness in the field of distribution, will undoubtedly have an unfavorable effect on many small independent distributors and merchants, forcing their properties on the rental or sale market. Specially constructed buildings will be required by many of these new chain distributors. This will tend to reduce the value of existing small business property.

Also, easy credit terms will cause many to go into businesses for which they are not properly prepared. The resulting failures will dump distressed property with its chain of consequences on the market.

In view of the foregoing, and many other factors, it is my considered opinion that, while the immediate outlook for real estate is good, the long term outlook is not favorable. This should be fully taken into account by mortgage lenders as their loans tie up their funds for a long period of time.

A Sound Mortgage Policy

What, then, is sound mortgage policy at present? You have to continue operating. You can't just lock the door and say we don't like developments so we won't play! So, as a practical matter, a compromise has to be made on rates if mortgages are to be obtained at all. Likewise, an increase in appraised value beyond the 1939-1941 cost level is frequently necessary in order to meet the competition of some of the other lenders. How far a lender can safely go in this increase in valuation is hard to say. Certainly, no yardstick can be used! Every dollar of every such transaction should be closely scrutinized and watched. Furthermore, such mortgages should require substantial amortization during the next three to five years so that when the inevitable decline in real estate values sets in, the mortgagor will have a substantial equity in his property. Let me say that again: A graduated amortization scale is imperative for the next five years, even if lower rates have to be offered to get such a scale.

In conclusion, may I leave this thought with you. In your operations a conservative policy is indicated if you believe building activity will be high in the next few years, as that will reduce the values of present buildings. On the other hand, a conservative policy is also indicated if you believe that the building boom will be short-lived, because without large scale construction activity, employment will not be satisfactory and payrolls will not maintain the present levels of rent and valuation.

Production or Unrealistic Controls?

(Continued from page 1631)

keep up with those boys in Washington.

Obviously, the President and his advisors don't understand that general wage increases not only affect direct wage payments, but they increase the cost of materials and supplies used by manufacturers. Our Government is doing a grand job of promoting inflation.

Slowly but surely we are working our way into an economic mess, and soon we will find more and more reasons for retaining present controls, and for devising new ones that will continue indefinitely.

The fact that Mr. Bowles is now "The Czar," and that price controls will now be determined at a higher level, doesn't change the overall picture one iota. We will now have new "chills" in addition to the old "freezes," and a continuing unworkable program.

OPA will be doing business at the same old stand, and, if the President has his way, under the same law for another twelve months.

They will still be in position to gaze into their crystal ball and tell all industry what their sales will be, what their costs ought to be, and what profits they will be permitted to earn.

The road to all-out production is still well jammed up.

OPA will still set the Industry Standards. They will determine which of your costs are allowable and which are not. If they determine a manufacturer's "hardship" is temporary, the matter will be closed. If they grant any price concession, they will as a consideration, reserve the right to regulate production, and to inspect the books each ninety days, and to order refunds and price reductions.

The American business man will continue to be treated as though he were on relief, and if he doesn't like it, he can appeal to OPA's kangaroo court.

One fact is crystal clear:

Production will stop inflation only if we can keep OPA from stopping production.

Consumers and the Retail Business

Most of us in the retail business are not happy with the job we are doing. Consumers have been extremely tolerant, and they still are, but there is no earthly reason why they should continue to tolerate extreme shortages of essentials or inferior overpriced substitutes. Nor will they. Consumers will soon coolly appraise our performance and tell us in no uncertain terms that we are not doing a job. And we will give them what they want at a price they are willing to pay, or we'll be out.

We know we have been severely handicapped, throughout the war and currently, by a series of OPA actions that have caused line after line of low-priced goods to disappear from the market, and have forced drastic deterioration of quality as well as price increases in those lines that have remained.

We know, too, that OPA's current unrealistic, theoretical and unfair approaches to pricing problems are impeding production and literally throttling industrial activity throughout the country.

Although the war has been over for seven months, the shortage of consumer essentials is now more acute than at any time during the war.

What OPA Activities to Restrict

Industry must insist that Congress restrict the activities of OPA and require the immediate removal of all inflationary controls, particularly:

Controls that retard production;

Controls that force quality deterioration;

Controls that force items out of production;

Controls that encourage subterfuge;

Controls that hamper reconversion;

Controls that raise the cost of living;

Controls that keep us from doing our job.

We must keep firmly in mind that OPA is a wartime emergency agency, that it has no place in a peacetime economy. Any controls that are permitted to remain after June 30 must be definitely limited.

Nor would I go along with such high-sounding but meaningless phrases as "lifting controls as soon as possible" or "as soon as supply equals demand." These sound good, but they are steel traps. So long as production is held down, demand is bound to exceed supply. Price control means "Production Control." "Successful" price control means retarded production, reduced employment. Industry cannot "deliver" while in a straitjacket. It's like attempting to win a ball game without a bat.

Have Price Controls Been Effective?

But Mr. Bowles "assumes" that price controls have been highly effective and he plans to continue them.

And while suits, shirts, shorts, wash dresses and piece goods are practically non-existent, and while stocks of unfinished goods clutter up our factories and warehouses, appliances that are minus parts, suits without linings, lamps without sockets, or furniture without hardware, Mr. Bowles speaks of "the unexpected speedy reconversion," of our "excellent outlook," and the period of "unprecedented prosperity" that is around the corner. And he describes in glittering terms how "extraordinarily successful" his program has been, and to prove that price control has not hampered production, he explains that in World War I, production increased 25%, while in World War II, under OPA, it increased 116%. Just what connection there is between OPA and War Production is not at all clear. I'm sure they didn't apply their unreasonable tactics in pricing bombers.

Or by quoting overall sales and profit figures of a limited cross-section of industry or group of stores, he attempts to show that OPA activities have not interfered with civilian production. But it's never been clear to me that high sales or high profits on high priced novelties are a valid excuse for not having broadcloth shirts or wash dresses.

We haven't charged that OPA has handicapped sales or profits—we know that they have seriously restricted the production of consumer essentials.

Price controls are currently doing much more harm than good. The strikes which have stifled production and caused so much harm are largely the result of faulty price control policy. Curtailment of production is the worst possible thing that could happen to our country today—much worse in its overall effect than price increases.

And, just at the time when production is sorely needed, our Government threatens a group of manufacturers, by saying in effect: "Unless you ship the goods you are now holding at a loss, we won't let you make any more at a loss." That is really incentive pricing.

OPA Injures Consumers

OPA presumes to act in the interests of consumers, but the fact remains that the bulk of their important regulations, particularly insofar as low-priced essentials are concerned, have worked in reverse, and the end result has been a forced cheapening of quality and disappearance of goods, thus compelling consumers to purchase in price ranges much higher than those in which they would normally buy.

This series of regulations may be briefly described as first, the "Rigid Freeze" technique, which plainly discriminated against the low margin producer; second, the "Highest Price Line Limitation," under which thousands of low-priced producers cannot possibly operate; third, the "Maximum Average Price Plan," which fails to make adequate provision for mounting labor and material costs, notwithstanding the fact that it has been amended countless times; and now in addition to these three, we have "Cost Absorption" at all levels, simply a new name for the same type of unrealistic and inequitable approach as has obtained throughout the past three years.

Keep in mind that price indices do not reflect quality deterioration, nor do they reflect production, or availability of goods, or the Black Market deals which are becoming more and more prevalent, or the cost of subsidies. If we continue to use these for guides, we won't know where we are going or when we get there. Let's throw all these indices in the bay, and put all the cards on the table.

Of course, as every housewife knows, it is ridiculous to assume that the "line" has been held. Consumers spent 84% more money in 1945 than in 1940 for approximately the same amount of goods.

Industry Does Not Favor Inflation

OPA stubbornly adheres to the position that anyone who does not agree 100% with their arbitrary narrow viewpoint is advocating runaway inflation.

Industry has never taken such a position. We have attempted to obtain realistic and honest regulations. We have counseled against discriminating unfair tactics. We have urged that some attention be paid to the words "fair and equitable," and we know that production is the only possible antidote for inflation. But most industry consultations were meaningless and industry advice fell on deaf ears.

Everyone knows that labor costs and consequently material costs have increased sharply since 1942, that operating costs for every type of business are far above 1942, and that industry generally is faced with further increases in labor costs. Under the circumstances, it is hardly possible to prevent some increases in prices to consumers, but this does not mean advocating runaway prices or inflation.

Certainly there is nothing inflationary or extortionary about a FAIR price. OPA implies in their letters to Congress and in their statements to the press that present pricing policies permit manufacturers a price sufficient to defray current costs and yield prewar profits, but all industry knows that this is not the case. The pricing formulas make only partial allowances for current labor and material costs and administrative expenses. The strict application of this policy has been and is currently a major impediment to production. Manufacturers are compelled to discontinue production of prewar commodities they were skilled in making in great volumes, and to shift to lines in which they are not experienced. They have been forced to develop wholly unnecessary "new" products as a subterfuge to obtain price relief, whereas the new products are in most cases not equal to the prewar products in either quality or utility. At the same time, the pricing agency, with their "in-line" theory, has permitted countless thousands of newcomers to enter the manufacturing field and produce similar commodities at prices considerably higher than would be necessary to enable old-line manufacturers to remain in their businesses.

This situation is of course completely ridiculous, but the condition is widespread and inexcusable. And in every instance, the consumer suffers.

I will mention only a few of the countless examples that could be cited.

Cases of Impeded Production

Let's start with the largest manufacturer of work socks in the United States, or in the world, for that matter. His capacity is five million dozen pairs—sixty million pairs of hose. He tried for nine months to get a price that would enable him to produce profitably with current costs. Could this be permitted? Not under present regulations. Was he is the red? If not, he deserved no consideration. Because he had operated profitably on government contracts throughout the war, he could now well afford to produce at a loss.

He's finally given up. He put 80% of his machinery in grease, cut his labor force to 20% of normal, and his overhead to the bone, and now, instead of producing five million dozen work hose, he is producing one million dozens of a "new" number in dress hose for which he was able to obtain a profitable price. And he will make a greater profit on one million dozen of the "new" number than he ever would pre-war on his full production. But consumers will be shy sixty million pairs of work socks.

Lawn mowers are another good current example. Old line manufacturers, that prewar accounted for 85% of total production, are not producing, and the reason is obvious.

Grey castings have increased 35%; malleable castings 45%; labor 50%. Last October, OPA authorized an overall increase of 17%, not nearly enough to cover the increased labor and material costs. Industry has protested, in vain.

OPA requires the low-priced mower to be produced for $6.73. The manufacturer requires $7.76. As a result the largest manufacturers in industry have notified the trade that they cannot produce, and the only mowers available are extremely high priced "new" numbers produced by newcomers in the industry, who are able to obtain high price authorizations under OPA's ridiculous "in-line" pricing theory.

Instances of this kind create very real problems for retailers. Our customers need lawn mowers. Commitments must be made at once to obtain delivery in time. Shall we buy from the newcomers, realizing that we will be selling mowers at much higher prices than if skilled old-line manufacturers were permitted to produce. Or shall we hold off and take the chance of being out of the lawn mower business all season. This entire situation is inexcusable and severely penalizes the consumer.

Chenille robes are becoming increasingly popular. But OPA has just notified that industry that from now on out they will be required to produce under the Maximum Average Price program. This means that the average price of goods produced currently may not exceed the average price of goods produced during a base period in 1943. This is not price control, nor is it legal, but it is in effect. In the case of four or five of the largest producers, production of robes must not average over $2.25 each. The cheapest robes that can be produced today cost approximately $3.25. So, as in the case of thousands of other essentials, chenille robes will disappear and all of the producers will make bedspreads, not subject to the MAP program.

Last month, we contacted 27 producers and found only two that could deliver any robes and both of these are discontinuing production. We did find one gentleman who would deliver 12,000 robes provided they were paid for in **cash** (no checks) at $7 each. If the MAP plan is continued, your wives can wrap themselves in bedspreads when they go to the beach this summer.

Another instance. One manufacturer produces approximately 90% of the brass shells for light sockets. When his costs increased to a point that made profitable production impossible, he quit. Soon the only sockets available were in the Black Market. Eight cent socket for 60 cents, large size 32 cent socket for $1.25 each.

We might discuss why there is no broadcloth or 80 square cotton print, or why all of our sateen is exported;

Or why 95% of current yardage production is in sub-standard wartime substitute cloths;

Or why it is advantageous to load West Coast lumber in British bottoms;

Or why we have to import a new number in clothespins from Denmark and sell it at twice the price we used to charge for the old reliable product of our Maine manufacturer;

Or why we pay Mexicans over the ceiling price for piece goods for outsized dresses;

Or why plain wooden chopping bowls are not available;

Or why we buy Argentine socks, gloves and bags;

Or why 1 to 6 year olds have to play with dominoes and checkers instead of blocks;

Or why the low-priced electric iron production during the past twelve months has been exactly zero;

Or why we have purchased 250,000 vacuum cleaners from Britain;

Or why babies have to wear excessively heavy weight diapers.

Instances of this kind could be quoted by the hour.

But the answer to each is the same: OPA's adamant refusal to be fair.

Of course there are honest differences on pricing technique, but every reasonable person agrees that competent, equitable, clean-cut and prompt decisions are needed to encourage industry, to put men to work, and to produce goods quickly and thus counteract the inflationary trends that are now being stimulated by forced acute shortages induced by Governmental restriction.

OPA's Bungling and Delay

But instead of prompt decisions, we have continued stupid bungling and delay. It is difficult nowadays to pick up any newspaper or magazine, any day, anywhere, without finding a story or two on how OPA restrictions are retarding progress. All industry has complained—Wool, Rayon, Cotton, Lumber, Steel, Coal, Meat, Dairy Products, Oil—and the complaints have come from primary producers as well as manufacturers and distributors of end-products. Can you help but ask, "Are we all out of step but Bowles?"

It would seem that any reasonable person would accept the premise that no one will produce goods except with an opportunity for profit—but not OPA—at least not the head of their Consumer Advisory Council who insists that industry is on strike, that they need no price concessions, and that they will produce when they get "hungry enough."

If OPA would concentrate their activities on encouraging production, they could get the unqualified and solid support of industry generally. A tremendous amount of good could be accomplished this spring toward satisfying the pent-up demand for "hard to get" goods. If such action were taken now, there would be much less likelihood of any widespread upward price trend when controls are lifted next July.

OPA Has Not Encouraged Production

But we all know that OPA has not encouraged production, that they have not shown the slightest inclination to encourage production. Industry has advocated incentive pricing for years. OPA is finally adopting it. But most regu-

lations have impossible cut off points—a complete farce.

Anyone manufacturing men's broadcloth shirts for $1.03 or less may have a 15% increase. Of course there are no such shirts.

And while needed goods pile up in warehouses, because OPA's MAP plan makes it illegal to ship them, OPA close their eyes and become very much interested in taking controls off imported dehydrated banana flakes, manholes and manhole covers, canned Irish potatoes, furniture made entirely of glass, ice cream sandwich waffles, and imported and domestic canned eels!

You've all seen their untruthful propaganda on oranges and coconuts.

OPA has not shown the slightest intent to prepare for discontinuance of price control—ever.

Chester Bowles says that controls are unthinkable except in emergency and that no one who believes in free economy wants them continued a day longer than is necessary, but as per usual, OPA has taken no action.

I wish that every person here could have seen and heard the ex-real estate attorney who has the job in OPA of determining when price controls can be lifted item by item. And you should have heard him explain what he meant when he took the controls off of all baseball equipment except balls, bats, mitts, apparel and shoes. We thought he took controls off home plate, but no—he meant to include all the bases and the catcher's mask as well.

No, there is no indication of a real desire to take controls off, but rather a self-perpetuating and dangerous program that is bound to handicap industry throughout the transition period, and squeeze profits unduly indefinitely.

And it won't help matters any to have the White House attempt to buy its way out of important pricing messes, after weeks of consultation with advisors with inadequate knowledge of the problem.

A Politician's Paradise

Mr. Bowles' program is a "politician's paradise." He's for higher wages, a shorter work week, a higher standard of living and lower prices. He doesn't even mention production. Of course, this program doesn't add up, but Mr. Bowles can eat a non-existent cake three times and still have it left.

A few weeks ago, I received a very interesting letter from a gentleman in California, comparing the current activities of OPA with the French "Law of the Maximum" of 1793. Interestingly enough, they had base periods then, and maximum average prices. They also made the mistake of freezing prices at unrealistic levels, or not allowing for transportation and distribution costs. Production declined, supplies dried up, quality deteriorated, and black markets reached enormous proportions. Food was scarce. Butter, eggs and meat were peddled in alleys at night. People stood in line for hours to obtain bread. Before long the economic situation became intolerable and mobs marched on Paris shouting, "Down with the Maximum" and "Down with the Law of Famine."

Our greatest need today, as then, is more production and less controls. We cannot possibly have a free economy without free prices.

I wonder if many of you realize how far reaching certain OPA controls are. Do you realize, for example, that they can prevent men from starting new businesses by merely withholding price authorizations?

A wounded ex-prisoner of war, who served over four years in the army, made arrangements with the Veteran's Advisory Branch of OPA to manufacture dresses at $10.75 each. He started his plant, entered into a union contract, committed for materials and started production. His dresses were well received by New York stores and he was going along fine, until OPA's Washington office overruled New York and decided that because before he entered the Army he was a salesman of $8.75 dresses, he could not be a manufacturer of $10.75 dresses. His dresses cost him $9.50 each, but OPA insists he can't charge over $8.75.

All this under the guise of Price Control.

Methods of OPA Supervision

Everyone should read OPA's instructions to their enforcement agents which appear in the Jan. 18 "Congressional Record." This writeup completely describes all the slippery, slimy methods which OPA agents are instructed to use to worm their way into the confidence of a victim and get him to admit he violated some one of OPA's 60,000 regulations. The Gestapo could not have done a better job. To read this, one would think that the business men of this country are the vilest enemies of society.

I am advised that Mr. Bowles hastily ordered all copies of these instructions destroyed. But let me quote from it—and I'll leave a complete copy with your secretary.

A paragraph called "Switch the Blame" is interesting:

"When the facts in the case indicate that another person may be involved with the witness, phrase you questioning to transfer the blame for the illegal transactions to the shoulders of the other party. This eases the tension on the conscience of the witness and make it easier for him to explain the position to you."

Or one called "Animosity to Third Party":

"Endeavor to ascertain the status and degree of friendship between the witness and third parties concerned . . .

"If you find any degree of animosity, play this factor up by inference to the witness's mind . . .

"Point out to him that possibly he is being taken advantage of, is holding the bag, or being played for a sucker . . .

"Each little pin-point penetration that you make in the witness will make him want to sing to get even. When he sings—you write the music."

Or this one:

"Don't argue with the witness. Agree with him even though it hurts. You are there to get the facts. If he damns the OPA, the regulation, the Administration, the Enforcement Division, or you personally, learn to 'take it with a smile.' Convey to him the impression that you think he is probably right. In doing so, you are selling yourself to the witness as being a 'right guy.' This makes the witness feel that whatever he may tell you as to what he did and why he did it will be understood by you in the light that he desires . . .

"When you get the story, you've 'got' the case."

Then follow paragraphs telling agents how to create alibis, to use alternate questions, sympathy, flattery, face-saving, justification, and finally, if they can't get the witness to "break" any other way, they're instructed to use the "false statement" technique.

Who said, "It can't happen here!"

Cost Absorption

Just a word on Cost Absorption, a secondary problem. Mr. Bowles believes that retail margins are excessive. In a letter to Judge Vinson over a year ago, he announced his deliberate plan to "substantially reduce existing retail margins." He started with a limited list of low-price essentials, which retailers generally were quite willing to sell at reduced margins, or no margins if necessary, and at that time it was carefully explained that this was a restricted program, only to be applied to the barest of necessities. Since, we have seen that program expand, line by line, and price range by price range, and the end is not in sight.

OPA justifies such actions by preparing charts and booklets showing national averages in total industry sales and profits.

Of course we all know that we either fail or prosper on our own experiences, not on on statistical averages, and it is perfectly clear, considering the wide dispersions of margins and expense rates of the various types of distributors, that it is quite impossible for any pricing regulations based on industry averages to be fair and equitable.

Of course, if volume increases, expense ratios will drop, and margins and prices can be reduced, and industry would like nothing better. But the sales potential of a dry goods store cannot be projected on the basis of a national average figure that includes automobile and appliance sales. Nor can such a figure be used as a measurement of that retailer's ability to lower margins or absorb costs. The ability to absorb varies sharply by type of store and size of store, and volume of sales. The use of a national average figure is quite impossible.

It is well to point out that during 1936 through 1939, with margins substantially the same as today, over half of all retail establishments lost money.

But regardless of retail margins, our greatest need today is production, and unless goods are produced rapidly, we will really experience sharp inflationary trends.

So long as industry is uncertain, confused, and without incentive, we can't expect maximum production.

The answer to all of this is very clear. We cannot permit the extension of the Stabilization Act in its present form.

We cannot immediately remove all controls. Certain of them may be necessary. The acid test of whether or not pricing is adequate is production. I repeat, OPA is a wartime emergency agency, that has no place in a peacetime civilian economy. Continued restrictive control can only be reconciled with a lack of confidence in our productive capacity. Plans must be made for progressive decontrol now and for complete discontinuance of practically all controls by June 30.

I would recommend that industry immediately insist:

(1) That Congress state in plain English that maximum production is far more important than the maintenance of fictitious price levels.

(2) That the job of pricing be restored to industry, to producers and distributors, where it properly belongs, and that OPA, if retained at all, have limited review and supervisory authority.

(3) That every producer be permitted to establish prices sufficient to enable him to manufacture pre-war quality goods at current costs with an opportunity for profit.

(4) That any and all controls that stand in the way of legitimate production be promptly eliminated, and this includes the MAP program, and all like it.

(5) That the false theory that all increases needed to produce goods at current costs can be taken out of the hides of producers and distributors be discarded.

(6) That industry be given the immediate right to challenge any and all regulations in our regular Federal courts.

Unless principles of this kind are incorporated in an aggressive program, and carried out without reservation, our return to normal is certain to be unduly delayed and industry will be hamstrung for years to come.

No Free London Exchange Dealings

(Continued from page 1640)

surrender, however, their foreign exchange to their banks; they will have no right to dispose of them freely.

As for the banks, they will place at the disposal of the authorities their surplus of foreign exchanges, and will cover their deficiencies by obtaining foreign exchange from the authorities, as they have done since September, 1939. There will be no return to the prewar system of feverish activity in the foreign exchange market, with rates fluctuating according to supply and demand; and certainly there will be no return to speculation and arbitrage. Before the war at least 90% of the turnover of the foreign exchange market consisted of speculative or arbitrage transactions, that the turnover would in the circumstances be very small even if free dealings were restored. Indeed, it is doubtful whether in the absence of speculation and arbitrage it would be possible at all to find a counterpart to many commercial buying or selling orders, unless the Government provided it.

Trained foreign exchange dealers will be disappointed when they will realize that they will never have a change to practice their skill. As for the banks, they will accept the change with mixed feelings. The Bank of England itself, having organized a highly efficient department to deal with foreign exchanges, would be reluctant to relinquish that activity in favor of private dealers and brokers. In any case, already under the Governorship of Lord Norman, it had arrived at the conclusion that the resumption of free movements of "hot money" would be contrary to the interests of the country, a principle which was accepted also by the Conservative Chancellor of the Exchequer, Sir Kingsley Wood. And it would be difficult to enforce distinction between commercial foreign exchange transactions and transactions arising from movements of "hot money."

The bigger banks which handle most of the commercial foreign exchange transactions would not be unduly unhappy if the existing state of affairs were substantially maintained. Under the present system they earn a fair profit on foreign exchanges, without taking any risk whatsoever. Before the war they had to give a reasonably free hand to their chief dealer to job in and out of the market, engage in arbitrage, and even to "take a view" (as speculative operations were discreetly referred to) provided that at the close of the day they had no overbought or oversold positions. This activity of the foreign exchange departments was, on the whole, profitable, though if the dealer was caught out once in a while he usually lost all the profit he had gradually accumulated through weeks and months of hard work. Now that no risk need be taken, the executive will have less worries, even if the earnings of the foreign exchange department are not up to prewar level.

As for business firms engaged in imports, so long as they are relieved of the necessity of applying for exchange permit, it is a matter of indifference to them whether the dollars they need are supplied by the Government or by some other business firm through the intermediary of its bank and the foreign exchange market. Nor will exporters be placed at a disadvantage by the maintenance of the rule that they have to sell to their bankers the proceeds of their sales abroad. London has grown used to exchange restrictions during the six war years. The partial relaxation of the control will be welcomed and the City will settle down to its activities under the new system.

Ohio Brevities

(Continued from page 1641)

Nickel Plate preferred stockholders led by a number of foreigners now residents of the United States resulted in Chesapeake & Ohio Railway's withdrawal of its offer to merge the New York, Chicago & St. Louis Railroad (Nickel Plate) last year.

Chairman Robert R. Young made this statement Tuesday to stockholders of Alleghany Corp. which controls the Chessy Lines, including Nickel Plate, Pere Marquette and Wheeling & Lake Erie.

Young declared the leaders of the opposition group bought their NKP stock at low levels in recent years, and the price has risen in anticipation of an offer by C. & O.

"The C. & O. securities offered in exchange for NKP preferred at Feb. 14 this year would have commanded a price of about $152, compared with a market price of $124 a share for NKP preferred at that date. The maximum claim of NKP preferred holders amounts to $184 a share, but if that sum were paid in full, the recipient would have less after taxes than by acceptance of the C. & O. offer," Young stated.

"Not only was the C. &. O. offer more than fair, but it also was in excess of anything that the Nickel Plate stockholders may ever hope to receive.

"Before this proposal could be submitted to the stockholders or to the Interstate Commerce Commission, organized opposition developed.

"Unwilling to meet the unpredictable terms of this hold-up group, C. & O. was reluctantly compelled to withdraw its proposal for unification of the four roads," Young said.

* * *

At the annual meeting next Monday, stockholders of Marion Steam Shovel Co. of Marion, O., will be asked to approve an increase in authorized common shares from 100,000 to 400,000 shares and changing the company's name to "Marion Power Shovel Co." A proxy statement also seeks to remove present restrictions of two years on bank loans to permit loans up to 10 years.

The proposed amendment would permit the conversion of a two-year $1,000,000 bank loan, made in 1945, into a long-term bank loan, releasing funds for the rehabilitation of the plant without impairing the company's current position, it was announced.

* * *

One of the best offers made recently for railroad equipment trust certificates, according to Chesapeake & Ohio, was the bid of Halsey, Stuart & Co., Inc., which bid 99.612 for $1,750,000 of 1⅛% C. & O. serial equipments. The bid represents an interest cost basis to C. & O. of 1.198%.

Walter J. Connolly Dead

Walter J. Connolly, head of Walter J. Connolly & Co., Inc., Boston, died suddenly. His firm will continue in the investment business from its offices at 24 Federal Street.

Inflation Under Price Controls

(Continued from page 1631)

have disappeared. But the debt remains, and the increase in the money supply remains.

Since the beginning of the war the money supply, consisting of bank deposits subject to check and of currency outside the banks, has increased more than three times. In addition, the people of the country, individuals and business, hold other liquid assets—time deposits, war savings bonds and other government securities—in an amount also more than three times the prewar figure. Total liquid assets were $225 billion at the end of 1945, compared with $65 billion at the end of 1939. People can convert time deposits and savings bonds into money if and when they so elect.

The increase in the supply of money is the original and primary source of the inflationary pressure. Price control does not operate in any way to reduce the supply of money. Nor will it prevent a further increase in the supply if the Treasury continues to run a deficit and borrows from the banking system.

Price control therefore does not remove the basic cause of the upward pressure. Nor does it cure the other inflationary conditions cited. It does not diminish the ability of people to spend, but the contrary, since to the extent that price control is effective people's money goes further. It does not diminish the disposition to spend, as shown by the rise in spending and decline of saving since the end of the war, the unparalleled volume of retail trade, the amount of travel, the indulgence in recreation and amusement. Obviously it does not increase the supply of goods. No advocate of price control even suggests that it does.

Interest Rates as Inflationary Pressure

There are other sources of inflationary pressure which price control does not touch. One is the interest-rate policy. The decline in interest rates has not had all the public attention it deserves. Shortly after Pearl Harbor a seven-year U. S. Treasury security sold slightly below a 2% basis; there was no material change until the end of 1944, but since then the yield has dropped to 1¼%. Similarly the longest maturities of U. S. Government bonds after holding around a 2½% yield until about a year ago have dropped to a 2.11% basis. Corporate issues have been similarly affected.

We lack time tonight to discuss the technical reasons for this decline in interest rates, or the pros and cons of the Treasury and Federal Reserve policy which has permitted it. But we should not overlook its inflationary effects. A decline in interest rates on highest grade investments inevitably leads to a higher capitalization of income from all investments, in other words, to higher market values for income-producing assets. We have evidence of this in the rise in stock prices, and in the prices of other property, during the past year or so.

This rise is inflationary in several ways. In the first place it produces capital gains for those who wish to take them; and capital gains add to spending power exactly as increases in income add to spending power. To a man who wants to take a $30-a-day vacation in Florida, or to a woman who wants a $5,000 fur coat, it all looks like the same money. In the second place, capital gains probably add to the disposition to spend. They come as a windfall to the prudent and conservative, they are consciously sought by the optimistic and the venturesome, and they carry with them an atmosphere of buoyancy and celebration whose effects extend in many directions.

I also think it may be asserted, even though it is not provable, that the decline in interest rates has promoted further concentration of government debt in the commercial banks, with resulting expansion in the money supply. It makes government securities less attractive to people who want to hold them for income, and diverts demand to higher yielding investments. This leaves more governments for the banks to take.

Price control does not, in general, touch the inflationary pressures generated by declining interest rates. To be sure, at times the opportunity for capital gains is closed in certain speculative markets where prices are at the ceiling. But other outlets exist for speculative money, and no system of control that this country would ever endure could close them all.

This adds one more item to our list of what price controls do not do. They do not reduce, or prevent the increase of, the money supply. They do not reduce the ability or the disposition to spend. They diminish instead of adding to the supply of goods. They do not touch the inflationary pressures created by low interest rates.

To the extent that these problems are attacked directly, the arguments for price control lose much of their effectiveness. The first main problem is, of course, that of Federal spending. It is the Federal deficit which has created the inflationary pressure, and if further Treasury securities are to lodge in the banking system, either because of deficit financing or because of redemptions or shifts of outstanding issues, the pressure will rise further. Fortunately the latest indications in this area are reassuring. The Treasury had a cash surplus in February and undoubtedly also in March, the month of heavy income tax receipts. The budget will be balanced this quarter. There is real hope that any deficit hereafter will be small and that the fiscal year 1947 will show a surplus. Of course there are many uncertainties about such projections. But, in general, we can say that the Treasury deficit is no longer adding continually to the inflationary pressure and will not in the next 18 months to any significant extent.

The figures on the redemption of the U. S. savings bonds are also heartening. February provided a test, for it was a month of strikes, which should induce redemptions by strikers. But new sales, not including the accrual of interest on outstanding bonds, exceeded redemptions by $57 million. We should continue to promote the sale of savings bonds, to encourage saving instead of spending.

Needless to say, the approximate balancing of the Federal budget does not lessen the need for Treasury economy. We ought not to be content with halting the monetization of debt; we ought to get to work reversing it, which will require a budget surplus and retirement of government securities from bank holdings. A start has already been made in debt retirement, but out of the cash balance previously borrowed rather than out of a current income surplus.

We also need economy so that we may produce a surplus and at the same time provide tax relief in quarters where it is badly needed. Tax policies, however, must be one of the reliances in the battle to reduce inflationary pressures at the point of origin. The principle is that taxes should bear upon spending rather than saving. Excise taxes, for example, are appropriate to the needs of the battle against inflation, as a means of diverting more of the excess purchasing power from the markets.

Attack Inflation by Monetary Policy

Direct attack upon the basic causes of inflation may be made through monetary policy. A general policy, and specific measures, originally designed to facilitate credit expansion in order to support the war financing, are still in effect, although the war has been over for seven months. The Treasury does not appear to have in mind any early reversal, and although Federal Reserve officials are impressed by the need to reassert some control over credit expansion, and Chairman Eccles of the Board of Governors has expressed himself forcefully on the question, the System has not been inclined to move independently in the face of Treasury opposition. What may happen in the weeks to come of course I cannot forecast, but the present situation is that the framework of our monetary policies, at a time when an approximately balanced budget is at hand, is still the same as that devised to support unprecedented Treasury requirements for funds.

Since the Treasury is not at present pumping out purchasing power, we should not contend that the full responsibility or even the major responsibility for combating the inflationary danger can now rest on monetary and fiscal policy. If we try to do the job by monetary measures alone, they would have to be impossibly restrictive. Nevertheless, the arguments for extension of price control will have a hollow ring in many ears as long as unified fiscal and monetary policies appropriate to present conditions and to the inflationary danger are not established. Paticularly we must guard our budget, and keep ourselves secure against a return to deficit financing and monetization of debt

The inflation of money purchasing power is now a hard fact. Let us now consider elements which accelerate and compound its influence. Wage controls also are a part of our subject here tonight, and most appropriately so. Recent increases in wages have done more to activate the latent inflationary danger, and to put difficulties in the way of price controls, than any other development.

Wage Control

Since our subject is wage control I should like to ask, and I do not intend this flippantly, have we any wage control? The labor unions, having received if not all they wanted at least more than they expected, are now prohibited from obtaining wage increases in excess of an industry or area pattern, if the effect is to raise prices. However, all who have not yet received as much as the pattern are invited to make new demands to come up to it. Is this wage control? Or is it merely an interlude, relatively peaceful, between the satisfaction of one set of demands and the presentation of another—an interlude during which controls will be in existence, but largely nominal.

After V-J day wages were decontrolled, with scarcely a voice heard in opposition. It was recognized, I think on all sides, that wage controls suitable and enforceable in time of war would be inappropriate, unenforceable and disruptive of true collective bargaining in time of peace. There has followed, cumulating in recent weeks, a succession of wage increases manifestly too great to be absorbed without raising prices. Immediately, the wage-price spiral was accelerated, while monetary factors receded in relative importance. Now we have to realize that what we suffered from during the wage decontrol period was not the absence of controls. It was the kind of wage policy followed by many labor leaders and supported by the Administration. It was the positive actions resulting in the excessive rise of wages, rather than the negative action of releasing wages from control, which mattered.

The question which now arises is whether we can justify continuation of price control on the ground that wage policy has augmented the inflation danger. Where does this argument lead us? Many labor leaders have said that the increases recently obtained were only an installment on what they expect to get. I believe that the consensus among knowledgeable people would be that many labor unions will continue to demand wage increases outrunning the increase in labor productivity. If so, new upward pressures will be exerted on prices. Are we then to maintain price controls to escape the fact of this pressure? If so, no end can be seen.

In this period of wage and price adjustments we have fumbled an opportunity to move far more rapidly toward capacity production of civilian goods than we have done, and on terms which would maintain cost and price stability. For two or three months after V-J day the prospect was bright beyond all expectations. There was reason to think that the automobile industry in general would be under strong momentum by the turn of the year and moving toward full production by Spring. Meanwhile, however, the conditions which have led both to curtailment of production and to increases of costs were developing. Mistaken fears of deflation and depression led the government to support demands for large wage increases and other measures "to maintain purchasing power." Government memoranda arguing that large wage increases could be paid without advancing prices strengthened union demands.

The moment when these forces culminated was marked for history, I think, in two sentences uttered by Mr. C. E. Wilson, President of the General Electric Company, a man devoted as thousands and millions of others are in this country to the philosophy of trying to make goods better and at lower costs. Just before Christmas Mr. Wilson announced the decision of the General Electric Company to offer a wage increase and to apply for price increases. He said it was apparent that "the company can no longer adhere to its policy of maintaining prewar price levels. We regret that through this decision we join the forces of inflation."

Opportunity Passed to Apply a Stabilization Basis

Let those who in the future will write the chronicles of this period take note of those words as a curtain dropped on a glorious opportunity, as a reluctant retreat before a national failure to establish policies and achieve unity in making them effective which would have provided a stable basis for the reconversion period.

For the purpose of combating inflation, which is my part of this discussion, we must therefore concede that price control can have beneficial effects. At the same time, and again within the framework of anti-inflation policy, it has harmful effects. It harms us if it restricts production, not only because production is the source of welfare and progress, but also because restriction of production prevents a final solution of the problem of inflation. It is just as vital to get increased production, on one side of the question, as it is to reduce the supply of money—actually or relatively—on the other.

Price controls do restrict production. I think the industrial organization of this country in a very short time could turn out 15% to 20% more goods than it is now turning out, and that repressive OPA ceilings are one of the reasons why we are not doing better than we are. But I also think that there are some areas where the effective limitations on production are not those of price, and where de-control would be followed by price rises all out of proportion to any new production that they could induce for a long time to come. We ought to continue controls in those areas, wherever they are truly important in our economy and particularly in our cost of living.

These are momentous decisions that are being taken in Washington. Apparently the Price Control Act will be renewed—let us hope with amendments which will severely limit the controls and liberalize standards, both those which govern pricing and those which govern decontrol; and that the renewal will be not for a year but for a shorter term. We should concern ourselves with two dangers. First, that in relying upon price control to fight inflation, we shall rely upon it too generally and too exclusively, and that the direct attack upon the monetary, fiscal and wage aspects of the problem will be weak and inadequate. The second danger is that the American people may become too willing to accept price fixing as a substitute for the free market which is the soul of free enterprise.

I presume that Mr. Bowles is gratified by the fact that an opinion poll has shown that 80% of those polled believed OPA has done a job ranging from fair to very good, and that 75% think the price ceiling law should be continued after June 30. I wonder if there should be gratification at such a vote. I think it is something to ponder. I doubt greatly that it is in any sense the expression of an informed or thoughtful economic opinion. Rather, it is the evidence of the existence of another pressure group in the country. For inevitably—and I say it with full respect and sympathy—it seems to me that the answers to such a question must be governed by the feelings of housewives and others who are conscious of their function as consumers, but not of their responsibility as members of a cooperative productive organization. Government interventions produce pressure groups, as they long ago produced the farm bloc, the labor bloc, and let us say, too, the tariff bloc and others.

Perhaps you will ponder another point also. If we place the beginning of economic literacy and awareness of economic principles and events at the age of 20 or 21, there is no one in the country today under the age of 24 or 25 who has ever intelligently observed the working of a free market in anything. In most agricultural commodities, no one under 35 or 40 has witnessed, with mature observation, a truly free market.

A Device of Statism

Price control is a device of statism, of totalitarianism. It exalts the decisions of government above those of the free individual, in a sphere where all history seems to me to have demonstrated that the combined decisions of free individuals will produce a superior result. In the modern world we expect government to do many things which affect business. We are puzzled to know where to draw the line against government intervention. In this case the line is clear. Government necessarily affects the climate, the environment, the atmosphere in which business decisions are made. But when it withdraws the power of individual decision from business management it cannot expect that the system of free and voluntary association in productive enterprise will function at full efficiency.

The trouble with overhead control of prices is that it doesn't function unless it is supplemented by other controls and compulsions. The trouble with controls generally is that there are not enough brains in the world to do the job. The tensions, strains and responsibilities become unbearable. The evidence is on all sides. Consider the situation in the grain markets, the distorted price relationships,

Investment Education and Publicity

(Continued from page 1637)

nium or oil. They are pitifully ready to become the victims of the confidence man's technique. It is not enough for public authorities to spend their efforts in catching swindlers after they have fleeced their victims; there must be some kind of prevention worked out which can protect the investing public before its savings are lost.

Investment Public Worthy of Protection

Today's investing public is particularly worthy of protection. It includes the young soldier home from the war, with a few hundred dollars in savings and mustering-out pay; it includes the beneficiary of the gold-star veteran's life insurance policy, father or mother; a young widow; it includes the war worker who sees his savings disappear as reconversion lags and who desperately tries by "investing" his cash to win security for these troubled and doubtful years. These are all people who are not normally part of the investing public and who therefore are not informed either of the actual valid operations of bona fide stock salesmen or of the existence of the fraudulent dealers.

These are the people who normally in the course of the next 20 years would become the financial backbone of the investing public; it is therefore a matter of prime importance to see that their first experiences are not the tragedies which follow the operations of the swindlers.

How to achieve this protection for the would-be investor is a difficult problem. It is not possible to legislate investment intelligence into the buyers' heads. A campaign of education appears to be the only solution of the difficulty. Somehow these unwary people must be told about the differences between true and false investment.

The Educational Campaign

This campaign of education has been undertaken by the Educational and Publicity Committee of the National Association of Securities Administrators. The committee has taken the position that its duties are to work with the administrators of the various states. This is accomplished by passing on to the various administrators, suggested material and ideas to be used in the various states in carrying on their respective programs. To the Securities Administrators and other interested organizations the committee has sent, during the year 1945 and continuing during the year 1946, a series of releases covering a variety of subjects ranging from an explanation of the notorious swindles now being practiced, to suggested publicity for the general education of the public in buying securities.

These releases contain for the most part, material which the recipient might pass on to its special public by means of form letters, posters, and placards or advertisements in the newspapers and magazines. Many institutions were so impressed with the value of such a campaign that they used all the methods suggested above to put the dangers of unwise investments before the people.

A typical advertisement printed herewith, submitted by Miss Ruth Ruen, Secretary of the Michigan Corporation and Securities Commission to the National Administrators, is well worth reading:

Miss Ruen states in part: "In the event the banks, or some other agency, did not publish it, the blank at end of the page for 'Name' could be eliminated and it could be used as departmental advertising. In this case, where 'Name' is shown, the banks will use their own names and addresses. The mats cost 10 cents each in case such information is desired."

Another release contained a poster entitled "Our Open Letter from the New York Stock Exchange." This letter told in the clearest possible terms the value of hanging on to series "E" War Bonds. The dramatic graph on the leaflet showing the increasing value of the bonds as they are held for full time instead of being cashed immediately, ought to help the owner on the way to cashing war bonds to stop and consider.

Or there is the folder, "Speculating in Gold Mine Stock," published originally by the National Association of Better Business Bureaus in New York City. This folder has a most effective heading—torn strips from a number of phony stock prospectuses are scattered across the heading—"Make More Money Faster! The biggest boom in Canadian History! $48,000 to the ton! Canada's greatest gold mining development! 700% profit in one year! Buy now and I'll get you out with a profit! Buy now and hold for future development of this budding mining empire!" So shriek the headlines, each with its breathless exclamation point. There follows in the pamphlet a most illuminating discussion of two Canadian gold mine promotions, the present promotion by which so many ignorant United States investors are being freely victimized by stock salesmen operating safely across the line in Canada. *This must not be confused with the legitimate gold mines in Canada*, whose existence and productivity give the promoters a talking point.

Methods of "Finger Men"

Through the operation of local "finger men," that is, men who investigate a community to find out who may have a little money to invest, a list of names, addresses and telephone numbers gets into the hands of the stock salesmen. To the name on the list go the enticing circulars: "250% profit within the past few weeks! It may be the biggest gold mine in the world! Avoid disappointment by ordering at once!" Sometimes the circulars bring responses from the addressee; after all, fortunes have been made by buying gold mine stock, and speculation sounds adventurous and romantic as well.

These inquirers' names go first on the telephone list; but whether the recipient of the folder writes about it or not, his telephone number is going to be called. One evening when he is home from work, the phone will ring on a person to person call—long distance. The operator will say—"Toronto calling!" and while the man in the United States waits for the connection to be completed, he develops a healthy respect for the unknown in Toronto. Phone calls cost money.

Then a husky voice full of badly suppressed excitement speaks. "This is Joe Doakes of the Duxandrakes Mine. You remember, you are on our preferred customers' mailing list! I've just got a flash! They struck it rich at Duxandrakes! When this news goes out, the stock will go sky high! Better put in your order right away. How many shares?"

All the would-be investor has to do is to sign a check. The price of the shares is ridiculously low. The investment might bring in the riches most people dream about.

The persuasive voice on the telephone goes on, far past the three minute limit of most frugal telephone calls. Far too many times the veteran or the veteran's widow or the war worker or the school teacher who never had a hundred dollars to invest before gives an order over the telephone and later puts the check in the mail.

The Duxandrakes mine, which consisted mainly of an office with a telephone, charges off the $30 worth of phone call to overhead, collects the $170 balance of the $200 check as pure profit, and gets another number by long distance to the States.

Following the distribution of this release in the United States, so much publicity was given the Canadian gold mine situation that even the Canadians took notice of it.

Canadian Mining Boom

The greatest difficulty in educating the public away from the phony gold mine stock market is the existence of an actual boom in bona fide Canadian gold mines. These reputable mines suffered from the adverse publicity given the fly-by-night dealers in Canadian gold mine stocks.

The Hon. George A. Drew, Premier of Ontario, stated: "We do not believe it is within the power of any government agency to take investors by the hand and guide them past every pitfall they may encounter. Investment in securities is at all times a speculation. This is particularly the case of mining securities in the early stages of exploration and development."

The general feeling by some is that if an investor is so unwise as to buy stock on the basis of a telephone conversation from an unknown individual, little can be done for him and he might as well be victimized first as last.

This is not the feeling of the National Association of Securities Administrators. They know of course that there will always be some members of the public who cannot be educated. But if there are only a few who can be saved from the tragic consequences of their ignorance, the effort at education will have been very much worth while. A campaign of public education by a state authority warns not only the investing public, but also the sharpers and confidence men that in this state the authorities are alert and interested in preventing swindles as well as in capturing and punishing swindlers.

The Ontario Securities Commission upon the initiative of the Hon. C. P. McTague, Securities Commissioner, has undertaken steps to correct any bad condition which may exist among certain operators located in Toronto. Mr. McTague is to be highly complimented upon his corrective measures which he has launched.

The Nebraska Campaign

The Nebraska Bureau of Securities is part of the State Department of Banking. A letter went out to all the banks of Nebraska from the bureau on Oct. 17, 1945, which states very clearly the purpose of the Nebraska educational campaign.

"The Department of Banking has as one of its divisions and under its jurisdiction, the Bureau of Securities. This division administers the Blue Sky Law of Nebraska. One of the functions of the bureau is to police the state as to illegal securities transactions and to warn the public against securities frauds.

"It is anticipated that there will be a tremendous increase in frauds by confidence men in the near future. Swindlers have prepared their postwar planning and will exert great effort to obtain a large share of the 148 billion dollars of savings stored up in war bonds and bank deposits.

"One of the methods used to prevent such crimes is distribution of information and warnings to the public in advance.

"Every dollar lost in frauds is one less dollar prosperity to your community. Your cooperation in this program will be greatly appreciated."

On Oct 23, the Education and Publicity Committee of the National Association of Securities Commissioners was able to inform the Commissioners as follows:

"We are happy to advise the Commissioners of the fine reception obtained from the various banks of Nebraska. They are following our suggestions set out in the letter of transmittal attached to release No. 58. Further distribution is being obtained by banks requesting a supply of this material to enclose with their bank statements and other mailings. One bank is reprinting this material at their own expense and sending it to 6,000 customers.

"We are finding in Nebraska that business concerns and organizations are taking this publicity very seriously and are cooperating in an effort to warn the public against securities frauds. We believe that every state will find this splendid cooperation to exist. Respectfully submitted: Harold Johnson, Chairman; Allan S. Richardson, Edward J. Samp, Ruth Ruen, Kenneth Weddle."

There are, as has been said before, always those members of the buying public whose desire to get something for nothing is so strong as to blind them to the plainest signs of the swindler and the confidence man. For them there is little protection anywhere. But there are also those whose sheer ignorance makes them easy prey for fraudulent stock swindle. They are the people who hear vague talk of the new products which will be available for the world of tomorrow and who buy stock in a phony plastic company on their half knowledge; the people who hear of the gold rush and who lend a receptive ear to the man calling long distance; the people who have shuddered over the atomic bomb and who would invest hopefully in the company preparing a secret defense.

The only thing that can save these people is to make them aware of the existence of swindlers along-side legitimate stock salesmen, to give them an opportunity to learn the elementary truths about investment in securities and, to hope that they will find the knowledge thus offered a safe guide through the mined fields and booby traps on the road to financial security.

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the allocations, the contentions and confusions over the world. Compare it with the past in which price governed distribution—in which the grain merchants of the world performed almost automatically, and with a minimum of conscious planning, the task which today has us dissolved in confusion.

Danger of Further Inflation

We are faced today with inflation and with the menace of further inflation. It is a condition, not a theory. We are about to extend in some degree or manner the Price Control Act. It ought to be extended in little degree for a short time, and not in full degree nor for a long time. It may turn out to be a good or a bad thing. If the controls are liberally administered, they will gain us time—time which we have used so inadequately in the recent past. Let us not deceive ourselves, however, by thinking that the battle against inflation is inherently a battle to control prices. Rather it is a battle to increase production, and to do it without increasing the money supply further. It is a battle to limit Federal expenditures and balance the budget. It is a battle in which monetary policy is a weapon. It is a battle requiring individual self-restraint, working and saving instead of spending and adding to the pressure in the markets until the supply of goods becomes more adequate. It is a battle for unity and cooperation.

Just *One Minute* Please

DON'T TAKE A CHANCE

Before You Invest . . .

INVESTIGATE

NEW industries—new businesses—will follow the war's end and begin shaping the world of the future.

Planes and plastics, radar and rayon, transportation and television, will show the way to the new world of our dreams.

Capital is needed to make these dreams come true.

Invested capital will earn profits—if it is invested wisely!

We urge investors to exercise caution in making investments.

Do business only with REPUTABLE men.

Get information from the Michigan Corporation and Securities Commission, Bank of Lansing Bldg., Lansing 4, or 2000 Cadillac Square Bldg., Detroit 26, as to whether or not the man who solicits you is properly licensed and his proposition is legitimate.

[Name]

Business Man's Bookshelf

Development of the Soviet Economic System—Alexander Baykov—The Macmillan Company, Cambridge University Press Dept., 60 Fifth Avenue, New York 11, N. Y.—$6.50.

Distribution Cost Analysis—Charles H. Sevin—United States Department of Commerce — for sale by Superintendent of Documents, U. S. Government Printing Office, Washington 25, D. C.—paper—15¢.

Housing After World War I—Will History Repeat Itself?—National Housing Agency, Washington, D. C.—Bulletin No. 4—paper.

This Is The Road To Stock Market Success—George Seamans—A new edition, revised and rewritten to take into full account the present market position right up to the time of going to press—Seamans-Blake, Inc., Dept. C-1, C-2, 841 West Washington Blvd., Chicago 7, Ill.—$3.00 with privilege of returning for refund within fifteen days.

Fifteen Facts on the Proposed British Loan—Committee on International Economic Policy, 405 West 117th Street, New York 17, N. Y.—paper.

We Can and Must Trade With Russia—W. L. White—Citizens Conference on International Economic Union, 370 Lexington Avenue, New York 17, N. Y.—paper.

The Bretton Woods Agreements—a study embracing the accomplishments of the United Nations Monetary and Financial Conference held at Bretton Woods in July, 1944, with particular reference to the organization and purposes of the International Bank for Reconstruction and Development—Wm. E. Pollock & Co., Inc., 20 Pine Street, New York 5, N. Y.—paper.

New York Stock Exchange Weekly Firm Changes

The New York Stock Exchange has announced the following firm changes:

Transfer of the Exchange membership of the late Warner Cosgrove to Warner G. Cosgrove, Jr., will be considered by the Exchange on April 4. It is understood that Mr. Cosgrove will act as individual floor broker.

William R. Taylor will retire from limited partnership in W. E. Burnet & Co. on March 31.

Kintzing P. Emmons, partner in T. L. Watson & Co., died on March 21.

Russell & Long Open Office in Lexington

LEXINGTON, KY. — Harry L. Russell and Edwin A. Long have opened offices at 257 West Short Street to engage in the securities business under the firm name of Russel & Long. Both were formerly associated with J. D. Van Hooser & Co.

C. E. Wilson, Sr. Dead

C. Emmett Wilson, Sr., production manager for J. A. Hogle & Co., Equitable Building, Denver, Colo., died of a heart attack.

Echoes of the Savannah Meeting

(Continued from page 1633)

visable for a better consumption of products and the encouragement of international commerce.

"The Articles of Agreement entail, through the mechanism of the Fund and Bank, these high human hopes. Honduras in so far as possible is ready by means of these organizations to do her share for her own benefit and for the benefit of all friendly nations with which she contributed to win the war."

* * *

Hugues Le Gallais, Luxembourg Minister to Washington, on Luxembourg's Recovery

When asked by the "Chronicle's" reporter to comment on the economic situation in Luxembourg since the liberation, Mr. Gallais observed:

"The northern part of Luxembourg, which is agricultural, was partly devastated during the Battle of the Bulge, but very fortunately the southern part of the country, which has the iron ore mines and the steel furnaces, escaped damage. To repair the devastation in the north would take at least several years, we figure five years, and the Government is helping all those who have suffered. Obviously, to enable the country to recuperate our steel factories must work.

"Luxembourg is 80% self-sufficient as to foodstuffs. Of course we are a great exporting country and serve the largest steel production per capita of any country in the world. And, naturally, we are vitally interested in the stabilization of exchanges, in the promotion of sound foreign trade, and, therefore, in the Bretton Woods institutions.

"As you know, Luxembourg and Belgium have a customs union, which means that there are no import duties on commodities moving across the border. There is also a union with the Netherlands, although this still has to be ratified by the parliaments.

"The monetary unit of Luxembourg, the Luxembourg franc, is identical in value with the Belgian franc. Incidentally, we have profited from Belgium's example in tackling currency-stabilization problems. We have followed closely the program worked out during the war in London, and in working out that program our representatives cooperated with Camille Gutt, who is at this Conference as Belgium's Governor of the Fund. We have been able to put those plans into effect.

"It is noteworthy that in Luxembourg there has been no black market at all. Our problem is of course not as complicated as that of a larger country. Luxembourg's population is only 300,000. We are hard-working people like the Belgians."

Asked whether Luxembourg offers any opportunity for American investments, Mr. Gallais stated:

"Most emphatically, particularly in view of our steel industry, there are many opportunities for American direct investments in Luxembourg. The customs union with Belgium will help to make a market for the products of American branch factories. There are opportunities for the manufacture of agricultural and construction machinery and office furniture, just to name three things."

Asked to comment on the labor situation in Luxembourg, Mr. Gallais observed:

"We have had no strike in Luxembourg for 20 years."

* * *

Statement by Ethiopia's Governor

Ethiopia was represented at the inaugural meetings of the International Monetary Fund and Bank for Reconstruction and Development by G. A. Blowers, Governor of the State Bank of Ethiopia, and a native of Kentucky. In response to inquiry by the "Chronicle's" reporter at Savannah, Mr. Blowers said:

"The State Bank of Ethiopia is wholly owned by the Ethiopian Government, and besides being fiscal agent of the Government is the bank of issue and the sole commercial bank of the country. This bank was established in 1942 soon after his Imperial Majesty Haile Selassie returned to his throne.

"Although Ethiopia has had a most difficult time in reestablishing its financial machinery because of lack of personnel, remarkable progress has been made and the country has operated on a balanced budget each year since the reoccupation. It has no internal or external debt.

"Ethiopia is probably the first of the occupied countries which completely reestablished her currency. In July, 1944, the new Ethiopian dollar (burr) was issued. This dollar exchanges with the U. S. dollar at the rate of 40¼ cents per Ethiopian dollar. In keeping with the requirements of the Bretton Woods Agreements, the Ethiopian dollar's value is expressed in terms of gold, one dollar being held equal to 5.52 grains of fine gold. Both notes and coins are in use. The notes are of the following denominations: $500, $100, $50, $10, $5 and $1. There is a silver coin of 50 cents and copper coins of 25 cents, 10 cents, 5 cents and 1 cent. The notes were printed in the United States by the Security Bank Note Company of Philadelphia, and the coins were minted by the U. S. Mint.

"The present amount of coins and notes issued totals $35 million. This new currency replaces the silver Maria Theresa Thaler, which has circulated in Ethiopia since 1780. During the Italian occupation a very strenuous effort was made by the Italians to make the Italian lira the currency of the country. They were not successful in this because the native refused to accept anything but the Maria Theresa Thaler in payment for his products. This difficulty has not been encountered by the new currency, which is being accepted throughout the country. The Maria Theresa Thaler has not yet been outlawed in Ethiopia, but circulates at its silver bullion value, its rate of exchange with the Ethiopian dollar being published each day by the State Bank. However, it will eventually disappear from circulation because the State Bank, while permitted to purchase the Maria Theresa Thaler, is not permitted to recirculate it. Therefore all Maria Theresa dollars coming into possession of the bank are shipped out of the country and sold as bullion in the open markets of the Middle East, where a premium on silver has latterly prevailed.

"Ethiopia is primarily an agricultural country and is very widely cultivated, the principal products being wheat, barley and livestock. The number of livestock is estimated at 22 million head. Some progress has been made toward industrialization and there is now a large cement factory and cotton mill within the country. The principal power is hydro-electricity."

Mr. Blowers was born at Pineville, Ky., in 1906. He attended Columbia Military Academy, Columbia, Tenn., and Harvard College, from which he graduated with a B.S. (Economics) in 1928.

After graduating from Harvard he joined the National City Bank of New York's foreign service and served with them in London, Singapore, Shanghai, Tientsin, Hankow and Peiping until 1937. From 1939 to 1943 he was general manager of the Bank of Monrovia, Liberia, and during this period changed the currency of Liberia from the pound sterling to the U. S. dollar. When Ethiopia wanted someone to help establish its new currency, Mr. Blowers was suggested by the U. S. State Department, and so from 1943 to the present Mr. Blowers has been Governor of the State Bank of Ethiopia.

* * *

The Peruvian Bonds

Interviewed at Savannah concerning a press report (New York "Herald Tribune" of March 15, "Wall Street Comment") criticizing the Peruvian Government and himself for not having resumed service on the defaulted dollar debt, Carlos Montero Bernales, Governor of World Bank and former Minister of Finance, said:

"I do not know to which Peruvian statement the press comment refers. I am able to tell you that when I came to the U. S. A. in November, last, we made some negotiations with the Foreign Bondholders' Protective Council in New York. The Government of Peru has presented the Peruvian Congress following my return there a project of settlement for the dollar debt. This was in December, 1945. That project is now under the consideration of the Congress there. There has been a delay due to the consideration of the budget. We reached an unofficial agreement in New York. In presenting the plan to the Congress of Peru the Peruvian Government has carried out its promise."

From reliably informed sources here it is learned that the terms of the plan informally resulting from the conversations with the Foreign Bondholders Protective Council are:

Peru recognizes the principal of the debt.

Past due interest is to be cancelled.

1% interest will be paid from Aug. 1, 1945 through 1946; 1½% during 1947; 2% during 1948; 2½% during 1949, and commencing Jan. 1, 1950, 3% interest and ½% amortization.

Contrary to newspaper reports, informed quarters state that Mr. Montero received the full confidence of his government after he returned from New York and revealed the results of his talks and understanding with the bondholders' representatives. When he resigned as Finance Minister, it was with the entire cabinet.

Mr. Montero was unable to tell the "Chronicle's" representative here how much of Peru's dollar bonds in default have been repatriated by Peruvians by open-market purchases at default prices.

* * *

Keynes Holds Salary Payments Too High

Following is text of statement made at Savannah by Lord Keynes on March 16:

Lord Keynes

"After consultation with the Chancellor of the Exchequer, I much regret that I am unable to support the paragraph in the Report of the Committee which relates to the remuneration of the Executive Directors and their Alternates. We feel that it would lead to severe and well-justified public criticism to load the budgets of these new bodies with such high emoluments for so large a body of officials. It is all the worse at a time before we have even begun to consider the costs of their actual staffs, who will, we hope, be mainly responsible for the burden of daily business, and when the available income for such expenditure is still uncertain.

"It is not uncommon to find that one mistaken decision leads to another. If we had foreseen at Bretton Woods what was going to happen—and it has turned out widely different from our expectations—we should certainly have proposed that the remuneration of the Executive Directors and their Alternates, who, as distinct from the staff, are National Delegates, should be provided or shared by the governments appointing or electing them and not by the institutions themselves. This would have allowed the necessary elasticity for adjustment to the widely differing levels of official salaries in different countries. Unfortunately, that course was not followed. The difficulty facing us has been greatly increased by the decision to provide for whole-time service by directors, a decision which we believe to be inconsistent with the best efficiency of the institutions; and still further aggravated through the wholly unexpected provision for whole-time services by Alternates, not merely in the absence of their principals, but in addition to them. Nor do we believe that most countries can wisely spare from their own pressing problems the services of so many individuals of the calibre indicated.

"These decisions, however mistaken in our opinion, have nevertheless been made. The difficulty of the resulting dilemma which faces us is obvious. A more unpleasant duty than that which falls to me today I have seldom experienced. I do not wish to deprive any man, especially old and respected friends, of their due and proper reward. But in our view so large a body of persons cannot properly be remunerated on the very high level proposed, which equals or greatly exceeds the highest remuneration available in most countries for public service.

"My country feels, therefore, that they cannot share in any way the responsibility of this decision."

* * *

Functionaries and Their Emoluments

In planning for the early May meeting of the executive directors of the Fund and Bank, representatives of those countries whose directors were elected at Savannah and not appointed are discussing plans for assuring representation of the maximum number of their fellow countries. It is therefore expected that many of the elected executive directors will appoint as their respective alternates, nationals of one or another of the countries which at Savannah helped elect them but which otherwise could not put their elbows at the council table.

This sharing of the honors—and the powers—certainly will be practiced by the Latin Americans among their group, by the Near Easterners among themselves, and by the Europeans likewise. For example, Czechoslovakia at Savannah secured one of the Fund's executive directorships with the help of Poland and Yugoslavia.

The Czechoslovakian director must select his alternate. His alternate therefore is likely to be a Yugoslav or a Pole. And on the Bank, the Poles secured one of the executive directorships for Mr. Baranski, who therefore may be expected to chose as his alternate a Czechoslovak or a Yugoslav.

There are, as matters stand, twelve executive directors of the Fund and twelve of the Bank. With the same number of alternates there are therefore a possible four dozen jobs to be allotted. In each institution five of the places are set aside for the "Big Five" and therefore are not elective. Since the Big Five are not beholden to the voters of others, they are under no pressure to divvy up with other nationals.

With the score of Latin Americans, however, this is not the case. The Latins are limited to two executive directors and two alternates on the Fund and the same number on the Bank. The executive directors are elected for two years. Having made inquiry, the Latin Americans—and this goes for others, too—are satisfied that they may rotate the alternate directorships more frequently than every second year. The chances are they will do so every year. If this becomes the general practice, it is possible—since the executive directors under the Savannah compromise need not be personally present in Washington throughout their terms of office—that practically the whole membership of the institutions will at some time or other participate in the work of the powerful executive boards.

Some of the foreign governments fail to see why such a large and highly paid board of directors and alternates is necessary. The British, of course, were most vocal at Savannah in their opposition. **Lord Keynes is quoted as using the word "scandalous" to describe the high salaries which the inaugural meeting there voted to the executive directors and alternates.** It is interesting that the strongest fight for the high emoluments was made by one of the beneficiaries of the decision, Harry White. His highest pay to date, $9,800 a year as Assistant Secretary of the Treasury, automatically becomes the equivalent of about $25,000 a year when he assumes the post for which the Senate some time ago confirmed him: United States Executive Director on the Fund. The Senate did not pass on the salary, which is $17,000-after-taxes. **That salary was fixed only this month at Savannah, after what one of the British delegates describes as "bulldozer" tactics.**

Even more puzzling to foreign officials than the large group of executive directors with net salaries second only to the President of the United States is the so-called Procedures Committee created at Savannah to function between meetings of the full board of governors of Fund and Bank. With between two and four dozen executive directors and alternates to be on hand at all times, these officials profess to wonder at the need for an additional committee not contemplated in the Bretton Woods agreements.

The defense of the high salaries for the executive directors centers on the argument that this was necessary to attract the ablest talent from the attractions of Wall Street remuneration. So far, all that it has done is attract a couple of government economists from the best pay they have ever earned to a take-home pay from two to three times as large. **The reactions of Washington's bureaucracy, already seeking a general pay boost, will be watched with interest.**

Ohio Municipal Comment

(Continued from page 1641)

that business, in America at least, will be active and profitable, that employment will be high, in fact, that everything will be "rosy" for "at least a few years." In such an environment it is only human for investors to pay only lip service—if actually even that—to preparation of one's portfolio for adversities of the future. True enough, we sometimes hear some modern Elijah warn of the dangers that lie ahead, and frequently we echo these warnings in conversation with our friends. Sometimes even we may actually become exercised about these dangers facing us, and lament that nobody appears to be willing to cooperate to alleviate these dangers.

But if our thoughts actually go as far as considering what should be done to prepare our portfolios for adversities, we usually only "think it over," and if we actually reach a conclusion it is too often that we are "too busy" to do anything. "Busy-ness" is so universal today!

In such an environment it is only human to look at the yield rather than at the quality of the borrower. And such has been the tendency, indeed the almost universal practice, for the past few years; and probably such will continue to be the practice until something develops to shake the present universal confidence.

Longer Maturities Also Being Bought

It must be admitted that during the years of the war financing most banks and other institutional investors of the country added vast amounts of Government securities to their portfolios, and it may be argued that, therefore, the quality of their assets is today higher than it has ever been. Without arguing the point, however, it is true that even as Governments were bought in large quantities, other securities, certainly municipals at least, have been bought with less and less consideration of quality for the reasons mentioned above. Moreover, as the confidence referred to above approached more and more a state of complacency, investors have bought their Governments with less and less regard for maturity.

In these circumstances, it is indeed encouraging to see more bankers around Ohio buying short municipals at yields under 1%.

A Post-War Economic Policy

(Continued from page 1633)

questions involved in the above points and related subjects.

Remember that a sore or rotten spot anywhere in our system spreads and causes an illness everywhere.

Avoid an economic dictatorship. We are still a free society based on the enterprise system. Let us abolish neither without the consent of the people.

And, above all, we should keep in mind that the humanities come before the dollars. It may be trite to say it but it should be said again and again—that our first duty runs to Man before Business, but we must not forget that sometimes the two are interchangeable.

Having finished with an index, I proceed to my content.

"The Race of Selfishness Is On"

There is nothing much I can add to the statement I made before this honorable committee on Sept. 19, 1941. What was applicable then is applicable now—with this difference. Then we were about to fight the bloodiest and most devastating war in all history. There was unanimity of purpose in the country which grew with the war's approach. Now there is a new feeling that comes because the war is over. The race of selfishness is on—each segment of society and each individual seeking an advantage over others. The shooting war may be over but its aftermath—military, economic and spiritual—is still here. Before the peace terms are set, we are adopting a scuttle-and-run policy on all fronts, eager to get home and back to normal. Pressure groups are on the march.

On Sept. 19, 1941, I said—

"Except for human slaughter and maiming and all that goes with them, inflation is the most destructive of the consequences of war. It might double or more the cost of the war, it imposes the severest hardships on our people, and, through inevitable deflation that follows, burdens the future with a constantly increasing debt and a long period of painful and bitter readjustment, destroying the confidence of people in themselves and their Government, leaving them open to all the old and new isms. * * * With payrolls soaring and shortages developing, more money bidding for less goods, the danger of an inflationary price rise is imminent. If it is not taken firmly in hand in time, it may get beyond the possibility of control."

That can be said again today. Let us stop trying to do a thing but not do it both at the same time. We either must suffer what inflation brings or prevent it.

Price Control Alone Not Effective

I have advocated for war time an over-all price control, including wages, adjusting injustices or hardships where they exist. Price control by itself will not be effective. It must go hand in hand with a sharply defined tax program; the siphoning off of excess savings and earnings by selling government bonds to individuals instead of banks; by controlling all loans; by not favoring any one segment of society over another; by priority, licensing and allocation to the greatest needs, and above all, by increasing production.

I quote again:

"Piecemeal price fixing will not halt inflation. It allows the general price level to run wild, while dealing with a few individual prices. * * *

"As inflation occurs the prices that are fixed soon become out of date and must be adjusted upward. Irregular rises in prices destroy the relationships between various costs, requiring even greater adjustments."

So much for the past. I do not wish to appear as a prophet saying "I told you so" but rather as friend and citizen examining with you our past in order to guide our future.

The Price Structure

The price structure is one that has grown through the years by trial and error, with the law of supply and demand, increasing transportation, finding better methods of manufacture and distribution, with each government, community and individual fitting itself into that structure. You cannot suddenly lay violent hands on it and expect it to function in the way that will give everything that is needed, nor cure all hardships and injustices. One apparently insignificant act, here or there, may change the life of a whole community and upset the lives of many far distant, just as the strike of a few will cripple a city or nation overnight by closing some function that may be as necessary as one of the vital organs of the body.

We cannot be complacent as we are being beguiled with more money, with less purchasing power. The gold dust thrown in all our eyes, by political abracadabra, only confuses, with gain to no one except temporary power to the economic magicians. We must mix brains with our brawn if we would keep our world leadership. We must steady ourselves in these emotional sweeps and keep our heads or the ship of democracy will wallow in this sea of confusion, spring a leak and disintegrate.

Whole segments of society have lost their perspective as to the rights of others. Many have lost their capacity for indignation over their own wrongs and the wrongs inflicted upon others. Many could not make up their minds whether we were going to have inflation or deflation. The wonder to me is that things are not even worse than they are.

The Postwar Adjustment Policies Report

Before the report on War and Postwar Adjustment Policies was made in February of 1944, practically everyone predicted between 9,000,000 and 15,000,000 unemployed. That prophecy proved unfounded. This kind of thinking shows how momentary emotion can affect a whole people.

This report recommended certain things of which but one was adopted—contract termination.

Another plan had to do with disposal of surplus property. If this had been worked intelligently and courageously many of the things the public wants and which are available would have been distributed and become useful. Some of the factories which we built could have been put in operation long ago. The surplus problem has been so tied up that it is not yet functioning properly.

Congress has just passed a law which will enable us to sell our ships. This was delayed too long. They should be turned loose on the best terms possible to all nations that can use them for commerce or fishing. They in turn will seek out in every port of the world even small cargoes of materials that can be used, thereby affecting the national and international outlook.

A highlight recommended in the report was to put one man in charge of human demobilization for workers and returning veterans. If it had been promptly done, we would have escaped many of our present difficulties among veterans, workers, and civilians.

There was advanced a plea for opening up credits for Small Business through the Federal Reserve, but nothing definite has been done about that.

The whole world is watching us, amazed at the exhibition of a giant who cannot pull himself together even to take care of his own needs.

The Increasing Money Menace

We reduced taxation nearly $6 billions for the purpose, it was said, of stimulating business which already had orders that it will take years to fill. At the same time that we lessened our income by $6 billions, we asked for new loans. This bond issue was oversubscribed, mostly of creating credits that can be turned by the Federal Reserve Bank into printed money. There lies a grave menace—money increase.

We make promises to other nations of loans for purchases generally to be made here. And if not here, then in other places in the world where we compete.

On every side the Federal, state, city, and county governments have rebuilding programs which will increase the demands upon an already limited supply. They can be easily postponed to a later date when they will be needed.

The New Wage-Price Policy

Then, while endeavoring to hold prices, we remove the indirect control over wages by getting rid of the Little Steel Formula (which was but a weak substitute for wage control) and grant the 18½ cents increase for steel. This will be followed by increases all along the line, no matter what anybody thinks to the contrary. Call it a bulge but it is really a break—and a grave one. This was inflationary.

I do not blame labor for wanting to retain their standard of living. For the decrease of $6 billions in taxes and the throwing over of the Little Steel Formula naturally made them feel they should take care of themselves. I would want my take-home pay to remain the same. The corporations and smaller income groups benefited mostly from the $6 billion tax reduction. Private owners of business, large and small, were seriously disadvantaged. And so it is with every group. And all of this must be followed by increases in pay or pension to the white collar brigade, government workers, firemen, policemen, teachers, professional people, veterans and the Army and the Navy.

Squeezing Taxable Profits

And what becomes of all of the people when we expect government to pay out more if taxable profits are squeezed? Who gets any advantage if goods are not produced faster than wages are advanced and money printed? We cannot call this holding the line or just a bulge. To make the take-home worth while, more things at lower prices must be produced. That is up to labor more than management. Unless each man produces more than he receives, increases his output, there will be less for him and all the others. Each one will receive more money but have fewer things.

We might as well admit we have made tragic mistakes. The race between prices and the cost of living is going on here and all over the world. Ask the housewife. She knows better than the economists and statisticians.

Let us now face facts. We must have full production. Without it, we cannot keep any semblance of modern, civilized economy or even government. We risk inflation. We mute the voice with which we speak for peace in the world. With full production, we can escape inflation and have our people re-assume their leadership.

In my appeal for legislation, in my appearance before this Committee in 1941, I said—

"The control of prices is essential for the successful conduct of our national defense, for avoiding social and economic aftermaths of war, for taking the profits out of war, for the maintenance of morale, the stoppage of inflation, and

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A Post-War Economic Policy

(Continued from page 1673)

the placing of America in the dominating place at the peace table. As I said before, with such great stakes we cannot afford an ineffective program of price control. Some persons, while admitting that everything I have said is true, have argued that the public is not ready for such drastic measures; that various interests have to be pacified at the expense of others; that the best law that can be had is a stopgap measure with compromises, one which while unable to prevent inflation, will keep prices down somewhat. To them I recommend the words of George Washington to the members of the Constitutional Convention. As you know, the delegates to that Convention originally were supposed merely to patch up the Articles of Confederation. They could have done just that and told themselves we will do more patching later on, and on, and on. Happily, the delegates chose to be guided by Washington's advice:

> 'It is too probable,' he told them, 'that no plan we propose will be adopted. Perhaps another dreadful conflict is to be sustained. If, to please the people, we offer that we ourselves disapprove, how can we afterward defend our work? Let us raise a standard to which the wise and honest can repair. The event is in the hands of God.'" And so here we are today.

Price Structure Out of Gear

The price structure is out of gear. I never favored subsidies but they have become a part of this tottering price edifice. I would continue those now in effect. I would give no more.

For one year I would extend the present war powers, price fixing, and include wages, with the provision that no raise in prices be made without the approval of OPA, and no increase in wage scales without approval of the Office of Economic Stabilization.

Because of the wage increase, we will be forced to raise prices but it must be with a firm and wise hand, so as to get the necessary production. Remember, we have not the stimulus and unity that war creates. We will have to depend upon the personal initiative and profit incentive, but that does not mean profiteering. If wages are advanced, the farmers will surely come along because their costs are increased and they have a law which gives them parity, and therefore higher prices as the average price levels go up. And then the wages of all civil servants, the white collar brigade —the recipients of fixed incomes —have to be increased. And, as I say, you will have to increase pensions.

There may be wisdom in reinstating the $6 billion tax reduction. Certainly I would continue renegotiations on war contracts. These steps might take care of excess profits.

Government expenditures should be cut to the bone.

The strictest allocation should be made of all money so that no loans will be granted, or undertaken here by private concerns or by the Federal government, states, cities and counties, unless approved by the Treasury which must seek the approval of the Office of War Mobilization which is in charge of production.

Helping Foreign Countries

I am not opposed to helping foreign nations. But until production warrants it, I am opposed to lending them money or assisting them except for direct needs to make purchases when we know they cannot be made here or elsewhere. At this time that would be to increase demand. It would be cruel to hold out hopes that will not be realized. I would keep the goods necessary to prevent inflation and then allocate the balance, as they come to hand, where it would help the most.

We must stop treading this economic primrose path. There is only one way to stop inflation and that is to get production. What must be done later can be better done now. Whatever is necessary now to do to get that production, I would do.

As everyone knows, I have advocated a stricter price control and higher taxes than anyone else. We have made too many makeshifts. We will either have to go back and do it right, or, having accepted the mistakes of the past, increase prices to put everyone on a higher plateau. The only hope we now have is that production will then be so large, inflation will be stopped.

Causes of Rising Prices

Rising prices have been due to two things:

1. Currency inflation.
2. Great demand being made upon a limited supply. The law of supply and demand will take time to work and it is during this period that we must have controls.

As I predicted two years ago, I see at least five or seven years of unending demand. How long that will last will depend upon the wisdom we show.

I approve of the setup whereby Mr. Secretary Anderson has charge of production of agricultural products, with the provision that prices made by the OPA should be subject to his approval.

As all other production is in charge of the Civilian Production Administration under Commodore Small, all prices for that production should meet with his approval.

There should not be any strikes or lockouts for a period of at least one year, by agreement preferably —otherwise by law. Mr. Bowles' new office can carry this out, taking care that no hardships are involved to the workers—or the employers. But they can shut down and live while the workers would starve.

Any dispute between the agencies involved must be solved without delay by the Office of War Mobilization (Mr. Snyder) to which Congress has given the power to do just that. Of course all can appeal to the President.

Black Markets Growing

To those who paid little attention to the OPA and used the black markets during the war, there has been added many good citizens who are just beginning that practice. If a wise course is not pursued, that practice will be extended. Prices and disrespect for law will mount, and quality of goods and respect for law will decrease.

It cannot be said too often: We must have production to save ourselves and the world. But, if a close-fisted policy squeezes every bit of profit out of industry in order that some segment of society may apparently be advantaged, the government being the sole judge of this, we will arrive at an economy with our industries nearly all nationalized without a vote of the people—an economic and social revolution of greater proportions than we now realize—one that American labor will rue as much as others.

Any type of control should be directed first towards food, clothing, civilian services, housing and transportation for everyone. If you will give the American people an opportunity to function, not by fear nor yet by favor, and let every segment of society feel that it is not disfavored to the advantage of another, in a few months you will see an amazing change.

I heard much during the war of an endeavor to protect the little businessman. How can he live under the present schedules? Prices must be set up not for each particular one in the business, but for a whole industry. People will not work without profits.

Faith in American Institutions

To the prophets of evil, I would like to say that I have faith in American institutions and the common sense of the American people. We must close our ears to those who try to turn us to statism by indirection. We are good-natured people who can be pushed around but only so much.

A final word:

Do we know what our resources are?

Do we know what our debts are?

Do we know how we stand and what we have with which to help others as well as ourselves?

Do we know how much the others really need?

Many of our difficulties will be solved when we get going. We cannot get going by adopting political instead of economic and human methods. The human equation is the greatest of all—the desire to function—the desire to profit. But those desires must not run wild—they must be limited to fairness. Let us be realistic and recognize that, at the same time getting away from any unjust opposition to any of the factors composing our economic body.

All parts of society because of modern communications have become so entwined that it can only function well as a whole. Sometimes only one, sometimes two or three missing parts will cause a breakdown of the whole machine, or cause it to slow down. Society cannot permit a few men—labor, or management, or farmers, or professionals, or politicians, or members of any group—to stop it because of differences in ideas or practices between some parts of society. While we are setting up a machinery to stop wars between nations, we have not solved it within our own gates.

A High Court of Commerce

I give you this thought:

There should be a high court of commerce set up to which these disputes can be taken for adjudication in order that we may work out a program on the basis of the principles which made this country great. It this is not done, we shall soon find ourselves in the morass of confusion that will bring us either to fascism or communism; and that Ark of the Covenant of human liberties and dignities, our form of government, will have been lost.

The advance in wages can make true a wish that we all have fathered—that is, if labor and management so will it, more and more wealth can be produced—more things made—so that each can share in more and better things at lower prices. Down that path we can safely go to the benefit of all and the disadvantage of none.

This would result in an economy of abundance, which should guarantee a return to free enterprise in a year.

FIC Banks Place Debs.

A successful offering of an issue of debentures for the Federal Intermediate Credit Banks was made March 21 by Charles R. Dunn, New York, fiscal agent for the banks. The financing consisted of $38,950,000 7/8% consolidated debentures dated April 1, 1946, and due Jan. 2, 1947. The issue was placed at par. Of the proceeds $22,980,000 were used to retire a like amount of debentures maturing April 1, 1946 and $15,970,000 is new money. As of April 1, 1946, the total amount of debentures outstanding will amount to $277,355,000.

Railroad Reorganization— The New Government Policy

(Continued from page 1637)

he did what the ICC should have done several years ago. He made provision in his revised draft for re-examing the present bankruptcies in the light of the fundamental change in the financial condition of bankrupt roads and of the prospects for a high level of earnings. Three weeks of hearings have been completed, and a second revision of the railroad reorganization bill (S. 1253) is to be introduced shortly.

II

The Senate Committee on Interstate Commerce has made rapid progress on the bill, S. 1253, to improve the procedure of reorganizing bankrupt railroads. To be useful and effective, the amended bill must be passed in time to save the roads whose owners are soon to be expropriated. Otherwise, the hearings and the resulting legislation will be largely academic and futile. A dead man needs neither drugs nor doctors. Such remedial legislation is already too late to do justice and to give relief to the owners of the Western Pacific and of the Chicago and North Western, now expropriated.

To supplement such legislative relief, perhaps it would be possible for the Senate Committee to request both the ICC and the courts to suspend at once action on all cases pending before them. But, even if it is possible to defer final action by the courts until Congress can provide legislative relief, prompt action is imperative in Congress.

III

The control of railroads taken out of the courts should be vested not in the bondholders but in the stockholders. This should be accomplished either directly or through their representatives, the board of directors. The bondholders are the beneficiaries and the stockholders are the victims of the present ruthless reorganization procedure. Obviously the beneficiaries do not wish to change the procedure. The holders of all the chips in a game like the existing rules of the game. Of course, the approval of the bondholders is essential in finally effecting a settlement.

IV

The law should cover even the roads on which balloting of the security holders has already taken place This should be done also in those cases in which the courts have approved the ICC plan, but in which the plan has not yet been put into effect and the case discharged from the court.

V

Excessive interest rates should be reduced. Back interest of railroads now in the courts has accumulated at excessive and antiquated rates from 6½% down. Meanwhile, coupons on Government bonds have declined from 4¼% to 2. The back interest in default should be recalculated on some basis near 3%. On several Reconstruction Finance Corporation loans, accumulated unpaid interest had accrued at 6% but was settled at 4%. Indeed, the report of the Senate Committee on railroad reorganization (S. Res. 192) stated that even 4% is too high and the rate should be 2½%, to allow ½% to cover expenses above the 2% cost of money to the Government.

VI

Railroad reorganization need no longer be so drastic. All property is worth more at current higher levels of commodity prices. Postwar national income should be high. Rates of interest have declined sharply. The ICC repeatedly stated that property value already exceeded capitalization of the railroads. At the present high levels of commodity prices, the cost of replacing the bankrupt railroads is far above the old total capitalization, including stock.

New high peace-time levels of national income are expected after the war. Railroad income is a fixed ratio of national income, about 6%. Railroad efficiency is at a record peak and should continue to rise.

The sharp decline in interest rates favors the debtors. In the worst year of the depressed 1930's, a group of leading bankrupt roads earned the interest charges 0.55 times. Meanwhile interest rates have been cut almost in half. Rates of interest on Government bonds of 4¼% and 4% have been reduced to 2¼% and 2%. Thus, at these lower rates the bankrupt railroads' interest charges in the above worst year would have been covered about 1.10 times.

This fact adds tremendous significance to the attempt of the Senate Committee to revise railroad reorganization procedure. It reflects also on the unwise and unbusinesslike plans worked out by the ICC and approved by the courts, which utterly ignored this basic fact.

The old stocks, preferred and common, can be continued if the assets exceed the capitalization, as the Hobbs Bill provides. However, if the assets are insufficient, then the old stock can be allowed a fraction of new stock plus an option warrant. This warrant would either furnish new cash to retire bonds or the option could be exercised by tendering outstanding bonds of the road, in lieu of cash.

VII

The percentage of fixed interest bonds should be reduced to 40% of the total capitalization, or of the 19A valuation. Railroads become bankrupt because fixed charges are not covered by earnings. Rarely does a maturing debt cause bankruptcy if the earnings cover the interest charges. Extensions or temporary financing were to be had, even before the Chandler and McLaughlin Acts for voluntary reorganization.

Therefore, do not reduce the total principal of obligations. Instead, substitute income bonds for all the fixed-interest bonds above the 40% of the capitalization or of the 19A valuation. Income bonds receive interest only if earned. These bonds might be secured by a lien on the property.

However, make it possible for them to be eliminated in a boom, by making them convertible. The conversion price need not be as high as $100 par. Generally the assets of the roads exceed the capitalizations and additional common stock can be issued up to the limit of the asset value, as under the Hobbs Bill.

Besides, some railroads issue no-par stock, and thus also the conversion price need not be as high as 100. In fact, some bonds have had relatively low conversion prices such as the Great Northern bonds convertible first at 40, then at 75. Let the conversion price be on a scale up for blocks of bonds. For example, let the first fraction of the total issue be convertible at a price of 25 for the stock, the next fraction at 30, the next at 40, and so on up. Otherwise, if the entire bond issue is convertible at one price for the stock, the stock can hardly rise above the conversion price until all the bonds are converted. Besides, the conversion will be slow. Furthermore, a rising scale of prices keeps down the number of shares resulting from conversion.

Institutions, savings banks and insurance companies should prefer this procedure. They now receive new common stock for old bonds. This procedure has several dis-

advantages. Interest on bonds is deductible from taxable income, thus increasing the margin of safety for bonds. Dividends are not so deductible. State insurance commissioners criticize stockholdings of life insurance companies.

Again, insurance companies have difficulty in recovering the principal amount of the bonds, because when railroad securities are issued after reorganization, stocks give a higher yield than bonds. Or stocks sell lower than bonds in relation to return. The spokesman for the insurance companies stated that the new common stock was worth only 35% of the principal of the old bonds exchanged therefor. If they had instead received a convertible income bond, as suggested here, it would have to sell on over a 10% basis to give them as low a market value as these institutions now have through their common stock holdings. Bonds would not long sell at such a high yield. On a 4% coupon and a 6% return, an income bond would sell at 66 and it could rise above the original $1,000 when the stock rises so that the bond conversion privilege becomes attractive.

VIII

Back interest should be paid, not in cash, but in a new prior preferred stock, convertible into common. This is not a new or revolutionary idea. Mr. Justice Lamar of the U. S. Supreme Court, in an opinion many years ago in the *Northern Pacific Railway Company vs. Boyd*, stated that it is not necessary to pay off the creditor in cash. "His interest can be preserved by issuance of income bonds or preferred stock." This practice prevailed for many years in railroad reorganizations.

The cash should be used to increase earnings and efficiency, to buy better equipment and heavier rails, to build stronger road-beds, and to install signalling systems, etc. The sparsely settled West needs first-class railroad service—fast, cheap, and efficient. Available cash should be put back into the property, not paid out to creditors. A railroad reorganization is not a liquidation but a reconstruction. Therefore the rule of absolute priority of a liquidation should not apply. Let the debtors and creditors compromise on a practical plan to operate the road efficiently.

The war provided a test. The railroads met it. This may not be the last war. Railroads must keep pace with the advance of the national economy. Therefore, in railroad reorganization, hold the cash and pay off accumulated interest with a new non-cumulative preferred stock, or unsecured debentures paying contingent interest. Make these securities convertible.

IX

Excess cash should retire bonds. Excess cash should be used to retire bonds by purchase in the open market, at low prices, exempted from the capital-gains tax. Bonds outstanding accumulate interest. But unpaid interest does not compound and is no burden. Therefore, cash should be used to retire bonds outstanding and thus reduce interest charges.

The roads that barely escaped bankruptcy, like the Baltimore and Ohio, the Missouri, Kansas and Texas and the Illinois Central bought back their bonds at low prices in the open market. Thus they put their road in good financial condition. But the trustees of railroads in the courts showed no such wisdom or prudence. Some allowed interest to accumulate at 6% when the principal could be retired at 1% or 2%. This neglect is another evidence of the defect of the present reorganization procedure.

X

The powers of the Interstate Commerce Commission should be limited. The powers of the ICC are too sweeping and its discretion too broad. The present unhappy, if not deplorable, confiscation of the property of many hundreds of thousands of citizens is a result of such unrestrained powers, the exercise of which the courts have refused to review.

There seems to be no provision for judicial review in the bill S. 1253. Therefore, it should be amended so that the courts be required to make full and critical review of every phase of ICC decisions.

Dissenting opinions within the ICC should be considered by the courts and be accorded due weight when presented by injured parties. Commissioner Carroll Miller in 1939, and repeatedly since, dissented from rulings which wiped out the stockholders' interest and he opposed forecasting earnings as a basis of capitalization, because "we are not omniscient and cannot forecast the future." The courts ignored his dissents but it was the stockholders who paid the penalty for the ICC's indiscretions and the courts' neglect.

The McLaughlin Act, I think, provides for judicial review by a special three-judge court. Should not a similar judicial review be required under this bill for railroad reorganization?

XI

Government machinery must be strengthened. The present railroad reorganization procedure shows the need for improving governmental machinery. The ICC set up reorganization plans in the depression and stuck to them when the depression was gone, like a gunner who shoots at a target that is no longer there, or a manufacturer who insists on producing buggies in an age of automobiles. The ICC was out of touch with rapidly changing economic trends. It was irresponsive to the wishes of the electorate. It refused to adapt itself to changed conditions. It exercised arbitrary power. The courts were equally at fault. This bill, S. 1253, could cure the present unfortunate situation, but it will not remedy the basic difficulty.

What is the long-term remedy? The Committees of Interstate Commerce of the Senate and of the House are very powerful.

(A) They should set up a **Joint Congressional Committee on Transportation** consisting of the chairman of the Senate and House Committees and about nine of the ablest members.

(B) This body should have a staff of experts, economists, accountants, engineers, and legal draftsmen. Their function would be to provide this Joint Committee with facts, comment on ICC policy, and analyses of proposed legislation.

The Senate Committee on Interstate Commerce has great responsibility to the people, but it has no equipment of its own to discharge it. It had to rely on the ICC. Administrators thus directed legislators. Even the ICC should welcome such a corresponding body of experts serving the Congress. The ICC has great power without responsibility to the people. Congress has great responsibility to the people, but lacks its own experts and necessary knowledge.

(C) A Federal Advisory Council on Transportation should be attached to this Joint Committee. It should consist of $1-a-year men, representatives of shippers, consumers, operators, investors and labor. Such a business body could keep Congress in close touch with rapidly changing conditions and with public sentiment. This body should meet periodically and make recommendations to the Joint Committee. It would then be unnecessary for private citizens sporadically to bring to the attention of this Committee grave evils of which the ICC seems utterly unaware. Indeed, the ICC refused to act even when its attention was called to these grave evils. Nay, more, it tried to defend its errors. It was living in a vacuum, unrelated to the realities of life. Perhaps the ICC too should have a National Advisory Council, to keep it in living contact with the world, which it affects.

The Joint Congressional Committee on Transportation should from time to time investigate the differences of opinion inside the ICC, a creature of Congress, so that this Joint Committee can exercise its own judgment on the merits of the two sides. One member of the ICC consistently fought against "guessing" future earnings and against wiping out stockholders in reorganizations. But his voice was not heard by Congress. It was suppressed inside the ICC.

XII

The Joint Committee of Senate and House should visit Great Britain to make a study of its railroads. It should study methods of railroad reorganization there. Stockholders are generally not wiped out. Various types of securities are invented to give the owners a continuing interest, such as option warrants, and **deferred** stocks coming after the common.

The brilliant legislative achievement of consolidating 126 British railroads into four system, and of coordinating railroads, trucks, coastal shipping and airways has effected great economies and lowered costs.

Our consolidations threaten again to be haphazard. Recently, small roads have been consolidating, with resulting considerable increase of efficiency and service. Such sporadic mergers may not fit into a national plan, which Congress should later authorize. Such a national system of consolidation, as Commissioner Carroll Miller has repeatedly stated, would lower costs, reduce rates to shippers, stabilize employment, increase earnings, give value to stocks now threatened with confiscation, and by making the conversion privilege attractive, would reduce railroad debt and thus lessen or even avoid future bankruptcies. Since the consolidation in 1923, not a single British railroad became bankrupt, but 40% of American railroads, not consolidated yet, went into bankruptcy or receivership.

XIII

Relief must come immediately. The recent report of the Senate Committee on railroad reorganization (S. Res. 192), shows keen analysis and constructive statesmanship. Its recommendations should be translated into law, promptly and without delay. Better a quick, if imperfect, law on railroad reorganization, subject to amendment later, to save the owners of the remaining railroads now in the courts, than a more perfect law, too late to prevent confiscation of the remaining equities. **Prompt action is essential.**

General Products Corp. Stock Offered to Public

Offering of 119,000 shares of ($1 par) common stock of General Products Corp. of New Jersey was made March 25 by Hill, Thompson & Co., Inc., and F. L. Rossmann & Co. The stock was priced to the public at $2.50 per share. Proceeds from the sale of the shares initially will be added to the treasury funds of the corporation, which has entered into a contract for the purchase, on April 1, 1948, of a plant site at Bayonne, N. J.

Alfred M. Seaber With Merrill Lynch Pierce Co.

JACKSONVILLE, FLA. — Alfred M. Seaber has become associated with Merrill Lynch, Pierce, Fenner & Beane, 116 West Forsyth Street. Mr. Seaber was formerly in charge of the Miami office of the Ranson-Davidson Company, and in the past of the Miami office of Merrill Lynch, Pierce, Fenner & Beane.

Our Reporter's Report

The next few months, covering the period right through to the summer season, promises to yield underwriters of new securities all the business they can handle provided the investing public and institutional investors do not experience any pronounced change in their ideas in the meantime.

Certainly the rate at which prospective new issues are being filed with the Securities and Exchange Commission, plus discussion of potential new undertakings such as that contemplated by Shell Union Oil Co., indicate that new securities will be forthcoming either by way of refinancing, or for new capital, as long as the market shows a disposition to absorb them.

Despite the further shearing of yields on the latest refunders there has been an apparent absence of any serious "backing-up" of such issues. True a few have been a bit slow in moving out. But underwriters, realizing they were entering into another phase of the prevailing "cheap" money market, were not given to expecting any miracles.

They realized that potential buyers, chiefly institutions in the case of high-grade bonds, probably would put up considerable resistence to any further cut into their revenues. But circumstances being what they are, it was reasoned that time would justify their judgment in venturing to refinance corporate obligations, many of which have only been outstanding for a few years.

So far the evidence has been in the bankers' favor. Major buyers have been hesitant to take on large commitments of the recent new issues in their initial stages, but indications are that they are gradually coming around to recognize the new conditions.

Ten Cents a Thousand

Things certainly have undergone a far-reaching change since the days when corporations sold their bonds direct to selected banking groups by negotiation. And underwriters are really getting down to brass tacks these days when they go after an issue.

It's no longer a matter of figuring what the market will take and then going to the prospective issuer. The banker these days must, in addition, figure what his prospective competitors will be willing to offer in order to get the loan.

What has happened becomes apparent when it is realized that bids which won the awards of two substantial issues this week were only 10 cents a $1,000 bond better than those of the nearest rivals.

Southern Pacific's $25,000,000 of new 15-year bonds were sold as 2¼s at a price of 98.319 with the second group offering to pay 98.309 for the same coupon. Again Hackensack Water Co.'s $15,000,000 first mortgage bonds were awarded on a bid of 104.42 for a 2⅝s coupon. The next nearest bid was 104.41.

Another New Mark

The Hackensack Water Co.'s operation was interesting in another respect since it shaded slightly the cost basis on which the Madison Gas & Electric Co. disposed of an issue of $4,500,000 of first mortgage bonds about a month ago.

The indicated cost basis to the Hackensack company was approximately 2.417%. The Madison financing was done on an indicated cost to the company of about 2.4265%.

At the reoffering price of 105 fixed for the Hackensack 2⅝s the yield to the purchaser would approximate 2.390% which puts it just under the 2.396 yield afforded by the Madison Gas's 2½s on their resale price of 102¼.

Saguenay Power Co.

Another Canadian utility issue was marketed here yesterday when a banking group brought out $23,200,000 of new first mortgage sinking fund bonds of Saguenay Power Co., Ltd.

Price at 103 and accrued interest the bonds are reported to have met a rather receptive market and were said to be moving out with satisfactory speed.

This operation, together with the private sale of $5,400,000 of 2% serial debentures to a group of Canadian banks placed the company in funds to redeem all of its currently outstanding long-term debt.

New Issues Moving

Although Southern Pacific's new 2¼s were not a "red hot" proposition marketwise, being offered at 98¾ to yield about 2.35%, the bonds were reported moving out to investors in a manner which completely satisfied their banking sponsors.

The Hackensack Water Co.'s new 2⅝s made an even more impressive showing, despite their record low yield. Reports indicated that syndicate members were completely sold out and it was the impression around the Street that the balance in dealers' hands was not burdensome.

Investors continue to nibble away at the recent large Union Pacific offering, but dealers report bonds around in good volume in this issue.

House Rejects Cutting Lend-Lease Further

By a vote of 171 to 148 the House, on March 13, declined to meet the demand of Representative John W. Taber (R-N.Y.) that it cut down lend-lease balances an additional $200,000,000, the Associated Press reported from Washington. Drawing special attention to a Government report obtained by the House Appropriations Committee showing that shipments to Russia are still continuing, Mr. Taber declared: "I question whether we should be sending that country anything further under lend-lease." Said the Associated Press:

"The office of foreign liquidation of the State Department, which handled postwar lend-lease goods distribution, gave reporters this explanation when asked about Representative Taber's statement:

"The Russians are obtaining a total of $290,000,000 of goods and services, but on a credit rather than a cash basis. They are receiving these goods and services under an agreement made with the United States weeks ofter wartime lend-lease was ended following the defeat of Japan. The agreement provided that the Russians would receive $240,000,000 worth of goods and $50,000,000 of services such as transportation and docking services.

"Shipments under this agreement began in mid-November, and by the end of January totaled $120,000,000.

"The goods must be paid for in 22 annual installments beginning July 1, 1954. The credit carries an interest rate of 2⅜% beginning July 1, 1947.

Bond & Goodwin Offers Arnold Brilhart Com.

Bond & Goodwin Inc. offered to the public today, March 26, 143,925 shares of common stock (par $1) of Arnold Brilhart, Ltd. at $2 per share. The outgrowth of a business started in 1939 by Arnold Brilhart, a well known reed instrument artist and radio performer, the company was formed in 1943 to manufacture and deal in three principal types of plastics, musical instrument accessories, precision industrial plastics and consumer products. Sales in 1945 amounted to $761,638 and net income before Federal taxes $43,586.

The company proposes to use the proceeds from the sale of the stock for additional plant equipment consisting of injection molding machinery and other corporate purposes. Two plants having a total of 30,000 square feet of floor space are operated in Great Neck, New York. Giving effect to this financing the company's outstanding capitalization will consist of 533,625 shares of common stock.

During the war the company engaged in the fabrication and molding of precision parts for electrical devices, electronics, television and many other instruments and appliances as a subcontractor. Retooling and other changes made in connection with these orders established industrial plastics as one of the major divisions of the company's enterprise.

Income Payments Drop

Income payments to individuals in January totalled $12,936 millions, 3% less than in the same month of last year, the Department of Commerce reported on March 12. The January total was 9% below December income payments of $14,272 millions, but the decrease was due largely to the usual sharp drop in dividend and interest disbursements at the begining of the year. After allowance for this and other seasonal influences, the Department's index of total income payments declined from 234.1 in December to 231.6 in January (1935-39-100). Income payments in January, after seasonal adjustment, were equivalent to the annual rate of $155.6 billions, as compared with the actual record total of $160.8 billions in calendar year 1945. The Department further reported:

"The January decline in the index of total income payments resulted in part from a sharp reduction of total military pay reflecting continued demobilization of the armed forces. Contraction in factory pay rolls—attributable to strikes—also was an important factor. However, income payments to civilians remained substantially unchanged from December to January, since gains in income paid out by trade and contract construction establishments and a large increase in unemployment benefits approximately offset the drop in total factory pay rolls. The volume (seasonally adjusted) of civilian incomes was virtually as large in January as in July, the last full month of war.

President Urges Senators Remain in Jobs

President Truman's recent action in urging Senator McFarland (D.-Ariz.) to remain in the Senate rather than take a Federal Judgeship in his State brought inquiry at a subsequent news conference as to whether the President considered this a good general policy. To which Mr. Truman replied, according to an Associated Press Washington dispatch of Mar. 14, that he thought Senators with lengthy service were invaluable to their States in the Senate and should remain there rather than take other jobs.

Soviet Withdraws From Council Sabotaging UNO

(Continued from first page)

he used every available forensic weapon, including irrelevancies, repetitions, "evidence" consisting of press statements attributed to Stalin and Iranian Prime Minister Ghavam, including quotations from the Soviet's own news agency, "Tass."

Iran's Complaint

When the Iranian representative, Ambassador Hussein Ala, was permitted to tell his story to the Council this evening, the reasons for Moscow's attempted obstruction were understandable. He reported that he had direct word from his government that Russian troops are still in Iran; with absolutely no assurance that they will get out at all—much less by any specific date. He reported that the Russians were interfering with the functions of his government, and with the people's daily lives—all directly inconsistent with fundamental sovereignty rights. He further categorically denied that an "agreement," as described by Mr. Gromyko, exists otherwise than in the mental processes of the Soviet.

Soviet Action Stimulates Uncertainty

The Soviet withdrawal throws a decisive bombshell of gravity into the international outlook. During recent heated episodes, the optimists have consoled themselves with the fact that, "after all, they are still talking and blowing off steam," or "they are still smilingly sitting next to each other." But now even this is ended.

Of immediate concern is the possible operation of the UNO and the functioning of the Charter without the Soviet. There is the basic question whether any single Power is to have the right to keep the entire organization from functioning. Specifically, under the voting rules the Soviet in its absence automatically exercises its veto power, where such veto power applies. If the Soviet is declared a party to the Iranian dispute, it will not have veto power until the matter reaches the stage of action. But in all other stages its absence automatically exercises the application of the veto which in the Charter's formulation is so zealously fought for.

* * *

Nine months after it was conceived in San Francisco, as the "Board of Directors" for all fifty-one countries of the United Nations Organization, the Security Council entered into continuous session at 2:30 o'clock last Monday afternoon. To enable this eleven-nation world body to embark on its epochal career, after all the previous inhospitable bickerings, Hunter College turned out to be the good, if at first somewhat diffident, host. Inaccessible as these headquarters in the Bronx may be (7 to 10 miles from the delegates' sleeping and working headquarters), and though they are creating growing nostalgia for quiet and beautiful Geneva, they have at least saved the day.

American Conversion Miracle in a Girls' College

The readying of the quarters in time for the scheduled opening perfectly typifies American ability in conversion. It took only three weeks to transform Hunter's main gymnasium into a dignified and beautiful chamber for the august proceedings of the Security Council, and the former mermaids' swimming pool into the seething press headquarters. It took just 17 days to construct an absorbent ceiling for the Assembly Hall, to cover the gym's steel girders with special walls of serrated mahogany plywood, to hang three thousand yards of red-brown drapes, to install 554 very luxurious sliding seats, and to construct 10 radio booths, one television booth, and one movie booth.

Simplicity the Keynote

Despite the ample luxury here, the atmosphere is in strong contrast to the spectacle of the San Francisco Conference, where the general meetings were held in the sumptuous Opera House, and where the participating countries numbered 51 instead of the current 11. In place of the former enormous and bedecked opera house, the present assembly hall resembles a modernistic broadcasting studio. In place of San Francisco's sumptuous dining places, Hunter offers a self-serving cafeteria—for the most important delegate as well as the humblest clerk.

This business-like simplicity extended to the conduct of the "opening exercises." The addresses of welcome, by Messrs. Truman (by proxy), Byrnes and Dewey, established a record for brevity as well as pungency; and the enterprising President of the Borough of the Bronx, Mr. Lyons, fortunately limited his contribution to a letter read by the Chinese Chairman, Dr. Quo.

Mr. Lyons, the one-man Chamber of Commerce, elicited the audience's sole humorous reaction of the day, with the interpreter's reading of the French translation of his repeated plugs for "Le Bronx" for the benefit of the annals of history.

* * *

The Battle of the Bronx

At the opening ceremonies the underlying question was whether (in baseball parlance) they marked the warm-up for the Battle of the Bronx, or a meeting to pave the way to a period of peace for this sorely-tried world. And if a battle, was it to be a good-natured sham affair with cream-puff weapons? The unfortunate answer was not to be long in coming.

Soviet Psychological Dominance

The feeling pervaded here to a remarkable degree—from the opening banging of the gavel on—that all proceedings were taking place in a vacuum excepting when they were tied with the recognizable reactions of the Russian Government. **If ever an international meeting has been one-Power conscious, it is this one!** Even at the opening proceedings the unanimous reaction to the ringing speeches of Messrs. Byrnes and Dewey was that their "meat" was entirely contained in thinly-veiled nuances that referred to the Soviet. In fact, press and audience kept automatically watching for the discernible reactions of Mr. Gromyko, her delegate, who was dramatically (and coincidentally) seated at the Council table's extreme left.

At Least the Meeting Opens on Schedule

Dr. Quo Tai-Chi

The start of the proceedings, by Dr. Quo, China's current President of the Council, on schedule, vindicated the good judgment of President Truman in having refused the Soviet's request for a two-week postponement. If the President had not taken this firm stand, the UNO would have died before it had even a chance of getting really started. **To accede to Russia's demand (irrespective of her real motive) for further stalling on the Iranian question, would have notified the entire world that justice for Iran was not even to be considered; would have represented appeasement number 1: would have sanctioned repudiation of the Anglo-Russian treaty and the Declaration of Teheran; and would have then and there handed over all discretion regarding treaty obligations to Moscow.**

* * *

Gromyko Took Over

At the second session, marking the opening of the Council's real business, scarcely a moment was lost in the Soviet's taking-over literally as well as psychologically. With the introduction of the Iranian question, Mr. Gromyko in his opening blast took the floor at 11:10 and held it until 11:59. It took him just 12 minutes of talking to get to the charge that those members who supported Iran's petition for a hearing, were guilty of "aggravating the political atmosphere of the world . . . and engaging in propaganda destined to foment a new war by sowing distrust and anxiety among the peoples."

Andrei Gromyko

In his tireless pleas to remove the Iran question from the agenda, the Russian's underlying and ever-recurring theme was that his country and Iran have come to an agreement, and that hence there is no occasion for Iran's complaint, or the Council's interest. When he was finally outvoted on the **elimination** question, and changed to agitation for **postponement** to April 10, he inconsistently altered this theme to hold that the "negotiations for agreement" were only well-started and would take further time to complete, and get information on. (For verification, he cited Associated Press dispatches for the benefit of this judicial body).

Mr. Byrnes Argues the Case

Secretary Byrnes has come to these meetings "as special counsel" (with permanent representative Stettinius seated beside him) personally to argue the Iran case; and he is putting his heart and soul into the cause. To many it seemed that his answers to the Soviet representations showed them up as the world's record in international "double-talk." If there has been an agreement reached since the filing of Iran's complaint, said Mr. Byrnes, certainly it should at least be verified by the two alleged participants. All he asked was that the Iranian Government, whose representative was in in the hall, be given the chance to state whether there is such an agreement.

It seems to this observer that the following excerpt from his reply to Mr. Gromyko clearly and correctly went to the nub of the entire controversy:

"Today the representative of the Soviet Government states that there has been an agreement. If that information is correct, then the Soviet Government should have presented to the Council for its consideration a joint statement from the Iranian Government and the Soviet Government stating that an agreement had been arrived at and asking that there be no further consideration of that question. But that is not the case. The Iranian Government has not withdrawn its letter.

"Though we have tried to ascertain the facts, we have not ascertained from the Iranian Government that there has been an agreement. Therefore, when a member of the United Nations advises the Council that a situation exists which threatens the peace and security of the world, we cannot deny to that nation the opportunity to be heard, to say whether or not there has been an agreement, to say whether or not they wish to withdraw their complaint.

"If that is not correct, then all a government represented on the Council would have to do when a complaint was made against it would be to advise the Council that there has been an agreement and, on the strength of that, ask that the complaining government be denied the opportunity to have a hearing."

Support From Egypt

And the following statement by the representative of Egypt, Mahmoud Hassan Pasha seemed to analyze the matter with extreme clarity:

"Mr. President, I think I would like to say just one word. Up till now we have heard one side of the story and a third party is getting into the matter. I think before we can form a real opinion we should hear the other side of the story and this other side of the story can only come through the delegate of Iran. The question, to my mind, should be divided into two sections. One is the question of knowing if this case should be brought to the Council. To my mind, it should. The other question is, after hearing the explanation of the second party, should the Council retain this question or not. It is only on the explanations of the second party which is a party in the debate that we can make up our minds as to whether this question should be retained by the Council or not."

Mahmoud Hassan

Sir Alex. Cadogan

British Subtlety

Sir Alexander Cadogan in more subtle, and typically British terms, conveyed skepticism about the actual existence of any such agreement on a two-sided basis; as well as criticism of the Soviet's refusal to give any direct answer to the British request for information which has been long since made under the Treaty of January 1942.

In contrast to Cadogan's diplomatic suavity was the directness of the Australian Delegate Hodgson, who, in typical Evatt form, practically passed the lie to the Soviet concerning its claim of an agreement with Iran.

The Soviet's Diplomatic Tactics

Comparisons with San Francisco come to mind. Primarily, the controversies are more dangerous now; because the formulation of a charter last Spring was worked out in an **academic** spirit, whereas the present operations thereunder are "substantive" and entail concrete decisions, action, and actual **performance.**

At San Francisco, London, and now in New York, the Russian representative is governed by home office instructions more than is any other delegate. **Impression of the underlying Soviet technique is that their foreign relations are strictly divided into two separate compartments: one being embodied in "public relations," the other in action—with frequent complete inconsistency between talk and performance.**

This dichotomy between words and performance took little time to come to its logical crisis- conclusion in the early stages of the present Iran discussion; when Stalin's eleventh-hour UNO-appeasing pronouncement to the press, and the Moscow-radio support of the United Nations and the equality of nations, ran headlong into Mr. Gromyko's boycotting of the Conference when he was over-ruled. **In other words, Moscow will play ball as long as the established rules of the game accord with, or are changed to accord with, its own individual desires.**

Gromyko Versus Molotov

The personalities of Foreign Commissar Molotov, who handled most of his country's negotiations at San Francisco, and of M. Gromyko are almost as different as if they were not countrymen. Whereas M. Molotov was aggressive and truculent, and gave impressions of great cynicism; Gromyko argues like an extremely brilliant lawyer—albeit with a very bad case—with a manner of great sincerity. Although one may feel that his country's case in the Iran proceedings are absurd, one admires this 37-year older personally for the able and energetic job that he performed against the big odds of common sense.

Molotov at San Francisco gave the impression of playing the role of "throwing his weight around," of intentionally acting like a bull in a China shop, and ending self-started controversies with gestures of great "concessions" to an appeasing world. Gromyko, at this early stage, appears to have been sent in by the higher-ups at best to "keep 'em talking," and at worst to take extreme steps like withdrawal on instructions from home. Pre-Conference realization of this prompted Mr. Byrnes' decision to argue the Iran case personally, to stop at the outset the probabilities of a pervasive appeasing atmosphere.

* * * *

The attitude of both men toward the language question is alike. At San Francisco Molotov categorically denied knowledge of English, yet when caught off guard it was revealed that this must have resulted from "great modesty." Similarly, Gromyko here spoke in Russian, but when the interpreter into English made the slightest change in one of his intended nuances, he jumped in with an interrupting correction.

Gromyko's Bad Case

Unfortunately for Mr. Gramyko, the Soviet's fundamental stand in trying to boycott Iranian discussion was so weak, that if forced him into legalistic quibbling, absurd rationalization, and childish complaints. He put himself in the position of a schoolboy who has hit one of his mates; and when the latter complains to the teacher, he insists that they are pals but that his mate shall not be asked whether that is O. K. with him.

Or the absurd Moscow-Gromyko position can be summarized as follows: they have announced through the press and other informal channels, and through Mr. Gromyko's personal word, that some "understanding" with Iran has been reached; but its details must remain completely unknown to the Iranian Government as well as to the Security Council; the unilateral word and wishes of Russia thereon must be accepted; and any doubts or inquiry by the Council, are resented as a slur on Moscow's veracity. Do those, including Mr. Wallace, who contend that Moscow is entitled to keep grabbing for "security," conceivably believe in the UNO as a real body?

* * * *

Mr. Byrnes Versus the Stall

The Soviet's delaying tactics, and her agitation for a two-week postponement, were most succinctly and memorably answered by Secretary Byrnes as follows:

"This is a rather remarkable proceeding. The Iranian Government through its representative brings to the attention of the Council that a situation exists which threatens the international peace and security. When the Council meets to consider it, the representative of the Iranian Government, as most of us know, is in this hall too. He can hear the representative of the Soviet Government speak for the Iranian Government. He can hear The Associated Press quoted. He can hear everybody speak for a government, but he can't speak for his own Government.

"The small nations of the world will watch with much interest what we do here. A great power is vested in us. We must use it wisely. We cannot say that this Council which under the theory of the Charter was to have its doors open to a nation that believed international peace was threatened can come to the Council and can never get an opportunity to present its case when its interests are vitally affected, as every member of the Council knows the interests of the Iranian Government are vitally affected by this motion to postpone.

"I visualize a situation when international peace is threatened by our armed force as in this case and the Council says, 'Your representative can attend, but he cannot present his case.' We wired and have also written to the Government and in the meantime what happened? No one of us can tell. We cannot proceed to vote on a question of postponing upon a matter of this kind until we give the representative of the complaining government an opportunity to be heard. . . .

"Every non-member of this Council will be interested to know whether it is quite so difficult ever to gets its case presented to the Security Council. We can't do that. We must give them a chance to be heard. **After we have heard them, after we have heard the representative of the Iranian Government speaking for his Government, if his statement does not appeal to us, then we can postpone. But to postpone without giving them a chance to be heard would be a violation of the spirit of the Charter."**

* * * *

Intensification of the Veto Issue

One of the very topmost issues still before the Council is whether it is going to follow the Russian demand on voting procedure, which would completely paralyze it as a functioning body, and make it the tool of the Big Powers in tactics of aggression. The Soviet's demand for further extension of the already-wide veto power by the Big Five, would have it encompass practically all proceedings that can come before the Council. The present veto rules are surely bad enough in preventing the UNO from taking any enforcement action against any of the Big Five, but the Russian demand is to permit even the barring of **discussion** of a dispute in which one of the countries with vetoing-power is involved. How this can be conceived of as conforming to Generalissimo Stalin's vaunted championing of "equality among states" is indeed most difficult to comprehend!

A rough resume of the existing veto rules follows: (1) The veto cannot be used in the initial discussion stage of a dispute. (2) The next stage—that embodying discussion—can be reached only by an affirmative vote of seven, including the Big Five. An exception is made in case one of the Big Five is an actual party to the dispute in which case it can neither vote nor exercise the veto. (3) The ultimate stage is that of **action** against an aggressor; which must be approved by seven members, including each of the Big Five, whether they are parties to the dispute or not.

* * *

The Rules and Operations of the Security Council

A detailed summary of the make-up and working of the Security Council follows:

The Security Council is one of the six principal organs of the United Nations. It consists of eleven member nations, five of which have permanent seats, while the remaining six non-permanent members are elected for a two-year term.

The five permanent members are: China, France, the Union of Soviet Socialist Republics, the United Kingdom and the United States.

At the first election of non-permanent members, held in London last January, Egypt, Mexico, and the Netherlands, were elected for one year; Australia, Brazil, and Poland were elected for two years.

In the Security Council each of the eleven Members has one vote. All questions are decided by a majority vote of seven members. In votes on question of procedure, a majority of any seven Members suffices. On all other matters the majority of seven must include the five permanent Members, with the exception that in the case case of questions raised under Chapter VI of the Charter—Pacific Settlement of Disputes—parties to a dispute abstain from voting.

The Presidency of the Council rotates among the Members in the English alphabetical order of the names of the member nations. The term is for one calendar month. Thus, the representative of Australia, Mr. Norman Makin, presided over the Council meetings in London which opened on Jan. 17. The representative of Brazil was next in order and for the meetings beginning on March 25 at Hunter College in the Bronx, the representative of China took the chair.

The Charter of the United Nations adopted at San Francisco last year lays on the Security Council the primary responsibility for the maintenance of international peace and security. To enable the Council to carry out this task, very wide powers have been conferred on it and all Members of the United Nations are pledged to carry out the decisions of the Security Council, in accordance with the present Charter.

Parties to a dispute must refer that dispute to the Security Council if they cannot reach a settlement by peaceful means of their own choice. The Council is empowered to recommend terms of settlement.

The Council may investigate any dispute, or any situation which might lead to international friction or give rise to a dispute, in order to determine whether the continuance of the dispute or situation is likely to endanger the maintenance of international peace and security.

Any Member of the United Nations may bring a dispute or situation likely to lead to international friction to the attention of the Council.

Against a State which disturbs the peace, the Council may take economic or military measures.

The Council functions continuously, its member nations assigning permanent representatives for the purpose at the headquarters of the United Nations.

On all military questions, the Council is assisted by a Military Staff Committee which is composed of the Chiefs of Staff of the five permanent member nations of the Council, or their representatives.

The Military Staff Committee is responsible, under the Security Council, for the strategic direction of armed forces placed at the disposal of the Council by the Members of the United Nations. The first meeting of the Military Staff was held in London on Feb. 4, 1946.

The Charter stipulates that, while the admission of new Members to the United Nations shall be by decision of the General Assembly, it must be on the recommendation of the

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Tomorrow's Markets Walter Whyte Says—

(Continued from page 1636)

they may talk about the rails, concentrate their purchases in the industrials. So the rails seldom show mobility comparative to the industrials. But lack of mobility doesn't remove them from the prognosticating class. On the contrary, because they are not loaded with public buying, their action may well be more significant, reflecting the opinion of better informed buying.

* * *

On the down-side the same thing is true. And it is in the rail action that certain unfavorable signs crop up. On a day to day interpretation the rails should stay above the 63 figure. When it is realized that the current price is about 65, it will be seen that the leeway is small. This doesn't mean that if the rails break 63 everything is up with the market. The industrials will still have to confirm it. But the burden of proof will then have to be on the side of the bulls. It is interesting to note that it was the rails which broke through their previous lows first. The industrials followed, but it was a matter of hours. Today it is still the rails which refuse to show any enthusiasm. They go up with the older averages but show no aggressive tendencies of their own.

* * *

All this means the outlook is still far from clear. It doesn't, however, mean that now is the time to sell everything. Caution is, of course, necessary. But show me a time when caution can be thrown to the winds and I'll show you a millenium.

* * *

Meanwhile you are still long of a list of stocks. Some of them are nicely in the black, some are about even, and some are a little in the red. If you hadn't sold half your position on the first burst up from the lows, I wouldn't consider the position comfortable. But having done so, there is some comfort that even if they turn around and go down from here your loss will be limited.

* * *

You now hold the following half positions: Air Reduction bought at 52, now about 53¾; American Car & Foundry at 60, now about 64; American Locomotive at 36½, current price the same as purchase figure; American Steel Founders at 42, present level about the same; Bethlehem Steel at 99, now about 105; Chrysler at 120, now about 129, Electric Auto-Lite about 71, now about 69; Superheater at 30, where it is at this writing; U. S. Steel at

(Continued on page 1678)

Norris & Kenly to Admit Hazlehurst as Partner

CHICAGO, ILL.—Andrew Hazlehurst, member of the New York Stock Exchange, will be admitted to partnership in Norris & Kenly, 209 South La Salle Street. Mr. Hazlehurst, who has been active as an individual floor broker on the Exchange, for many years, will make his headquarters in New York City.

Effective March 31, Perry H. Kenly, member of the New York Exchange, and E. Arthur Doern will retire from partnership in the firm.

With Herrick, Waddell

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—**Maurice A. Green** has become connected with **Herrick, Waddell & Company, Inc.**, 1012 Baltimore Avenue, after serving in the U. S. Army.

Joins Harker & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—**Darrell A. Dolan** has become associated with **Harker & Co.**, 210 West Seventh Street. In the past he was with William R. Staats Company.

Tomorrow's Markets Walter Whyte Says—

(Continued from page 1677)

82, now about 85, and U. S. Rubber at 65½, now about 69.

* * *

There is little point in recommending any additions or deletions from this list with the market between hay and grass. Holding on to present stocks and waiting for proper signals seems about the thing to do.

* * *

So far as news is concerned you can expect plenty of it from one source or another. With the UNO in session the international drumbeat will be quickened. Various newspapers will give various interpretations of what it all means. News commentators will do likewise. After reading and hearing everything you'll be just as confused as I am. My advice is to keep to the market and let the news alone. At least using the news as a barometer for market action is now advised.

More next Thursday.

—Walter Whyte

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

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Soviet Withdraws From Council Sabotaging UNO

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Security Council. Applications for membership, therefore, must be considered first by the Security Council.

Between Jan. 17 and Feb. 16, when the Council adjourned, twenty-three meetings were held in London.

Two items have been carried over from the London meetings:

(1) The report of the Committee of Experts—on which all members are represented—on the rules of procedure; (The Committee of Experts will be meeting in New York, beginning shortly.)

(2) The application from Albania, which was transmitted by the Yugoslav Government, for membership of the United Nations.

Truman Pledges Support of UNO

President Truman

President Truman's address of welcome, delivered by James F. Byrnes, Secretary of State, is as follows:

"On behalf of the people of the United States I welcome the members of the Security Council and the Secretary-General of the United Nations and their staffs to our country.

"We are greatly honored that the United Nations has chosen a site in our country for its home. We will do our best to make you feel at home.

"But there can be no home anywhere for the United Nations unless the United Nations remain united and continue to work together, as they have fought together, for peace and for freedom.

"The people of the United States not only wish you success, but they pledge to you their wholehearted cooperation to give to the United Nations the strength and the will to maintain peace and freedom in this interdependent world."

* * *

Security Council Must Maintain Peace: Byrnes

Address of Welcome of Hon. James F. Byrnes, Secretary of State, to the Security Council, March 25, 1946, follows:

"It is less than 160 years ago that our 13 sovereign States entered into a union for their common defense and to promote the general welfare and to secure the blessings of liberty for themselves and their posterity. That was then an untried experiment and many doubted whether such a union of free States could long endure. It is fitting to recall that that union also chose as its temporary abode the City of New York.

"Althuogh it was later to go through dark days of trial, that union did survive. It grew in strength and has played its part in preserving the blessings of liberty for all mankind. Let us hope that the new and broader union of states which has also chosen New York City as its temporary abode will likewise grow in strength and survive every crisis..

"It is, I am sure, the firm resolve of the American people to uphold the Charter. I am sure this is the equally firm resolve of all the peoples of the United Nations who have joined together to preserve the peace under law.

James F. Byrnes

"The Charter does not sanctify ancient privilege. It does not attempt to outlaw change in an ever-changing world. It does, however, obligate all the states, large and small alike, to refrain from the use of force or threat of force, except in the defense of law.

"Nations, like individuals, should do their best to adjust their disputes without resort to litigation. But no nation has the right to take the law into its own hands. If disputes cannot be settled by friendly negotiations, they must be brought before the Security Council.

"That is why the Security Council must at all times be prepared to act promptly. That is why the Security Council must be prepared to function continuously. If the United Nations is to endure there must be no excuse or need for any nation to take the law into its own hands.

"Upon the Security Council rests the gravest responsibility for the maintenance of peace and security. It must of necessity deal with problems about which nations in the past have been prepared to fight.

"Upon all the members of the United Nations rests the duty to cooperate with the Council to enable it to meet its responsibility. They must be willing freely and frankly to discuss their grievances before the Council.

"Questions affecting the peace of the world must not be treated as questions of honor which cannot be discussed. Questions of honor between individuals are no longer left to the ordeal of the duel. Questions of honor between nations cannot be left to the ordeal of battle.

"We must live by the Charter. That is the road to peace. And the road to peace is the road the peoples of the world want to travel.

"We are here to carry out their mandate. Gentlemen of the Council, we must not let them down."

Dewey Cites Council's Responsibilities

Text of Governor Dewey's address of welcome to the Security Council's opening session March 25, follows:

"It is a privilege to greet you on behalf of the State of New York and to welcome the United Nations to its new headquarters in our State. Each of you and every nation represented here may rest assured that the people of our State and of our nation are genuinely happy to have you here. We will follow your work with the utmost of good will, with high hopes and prayers that your labors start us on the road to permanent peace.

Thomas E. Dewey

"You meet during much disillusionment and much fear. There press upon you many problems and throughout the world hundreds of millions of people await with anxiety your action. Many had believed that the defeat of Germany and Japan would automatically start a new era of harmony and peaceful cooperation in the world. They are bewildered at the stresses and strains which have appeared. That was inevitable. There is no reason why, because the inevitable has occurred, men should lose hope.

"A world-wide conflict of such fundamental nature as the war now ended does not subside the instant the end of fighting is proclaimed. On the contrary, the end of the fighting releases many selfish plans and motives which had been bottled up by the necessities of common peril. With the end of peril, the victors are wont to go their separate ways to try to pluck out of the confusion some particular advantage. This usually happens when a military coalition has won its victory. It happened after the last war. It is happening now. **It is precisely the situation which was foreseen and which the United Nations Organization was designed to meet.**

"While the war was still unwon and the United Nations were only a military coalition, they took counsel from these lessons of the past. They pledged themselves, beginning at Dumbarton Oaks and then at San Francisco to become a coalition for peace. That pledge had then and now has the support of both great political parties in the United States. The new United Nations now exists. You are its strong right arm. There is a duty to the troubled peoples all over the world to settle the differences which were bound to arise—to settle them in a spirit of fairness and justice to all—to the weak as well as to the strong. That opportunity, which is now yours, has been bought at the price of much blood and anguish. Upon it center the hopes and fears of all mankind. Those fears must be dissipated and those hopes justified.

"These high objectives will be achieved if the processes of this Security Council are used for their intended purpose. There will always be temptation to misuse them. The processes of this Security Council can, of course, be made a sounding-board for propaganda for stirring up unrest and confusion in the world. They can be misused in a spirit of maneuver with the hope that by clever tactics one or another nation can be embarrassed and put in a false light. But any nation that sits on the Security Council or comes before it in such a spirit commits a crime against humanity.

"There can be only one spirit admissible within this gathering, that of genuine conciliation. It is that spirit which led the peoples of the United Nations, by the Charter, to pledge themselves 'to practice tolerance and live together in peace with one another as good neighbors.' All who abide by the spirit of the covenant shall be judged good by the conscience of a world which cries for peace.

"The people of the world are not experts in international law. They do not know the technicalities of the Charter. But the ordinary people everywhere will be sensitive to the spirit the nations bring to these proceedings. Your public deliberations make that possible, and that alone is a mighty contribution by this great new venture in the cause of peace. All the world will know what you do and the spirit in which it is done. That simple fact goes far to assure that the results of your labors will be responsive to the conscience of mankind.

"Success may not immediately crown your every effort. But failure would be irretrievable and unforgivable. With every success, mutual confidence will grow and finally flourish. Every step of progress for freedom and peace will make possible another step. And with each step the confidence of the people will grow firmer.

"Surely there is no people anywhere which seeks anything but peace. Surely there is no legitimate claim which cannot be achieved by peaceful means. You, here, are the means. With courage and firmness for the right, and with justice for all there can, indeed, be lasting peace. With Divine guidance and an abiding sense of responsibility for the peace of the world, you shall surely succeed."

Public Utility Securities

(Continued from page 1636)

sidiaries are sold or distributed, as seems likely) net income for 1945 was $1,215,106. Assuming that the new bonds are 3s (with interest coverage of about six times before taxes and four times after taxes) interest charges would be only $675,000 compared with the present interest figure of $1,753,404. The heavy amortization item of $168,058 might also be wiped out on the new basis. Assuming that new fixed charges are in the neighborhood of $700,000, this would mean a saving of about $1,230,000, which would be reduced by taxes to $760,000. This added to the above net income figure would produce $1,975,000 earnings.

It is not entirely clear whether any excess profits taxes are being paid on the present basis, but assuming that they are not, there would be a tax saving (due to the new law) of only about $55,000. On these assumptions earnings would amount to about 88¢ a share on the new common stock, and dividends might be in the neighborhood of 60-70¢. On this basis the new common might be offered at around $12-14 a share (the minimum acceptable bidding price is 10, and if only 11 is bid the issue may be delayed to July 1, 1947).

Calendar of New Security Flotations

NEW FILINGS

List of issues whose registration statements were filed less than 20 days ago, grouped according to dates on which registration statements will in normal course become effective, unless accelerated at the discretion of the SEC.

Thursday, March 28

Indianapolis Power & Light Co.

on March 9 filed a registration statement for 120,000 shares of 4% cumulative preferred stock (par $100). For details see issue of March 14. **Offering**—Company is offering to holders of 140,591 shares of 5¼% cumulative preferred stock the opportunity to exchange their shares for the 120,000 shares of 4% preferred, and in the event of over-subscription the 120,000 shares of new preferred will be allocated on a pro rata basis, the exchange carrying a cash adjustment. Any unexchanged balance of new preferred will be sold to underwriters and offered to the public. **Underwriters**—Lehman Brothers, Goldman, Sachs & Co. and The First Boston Corporation.

Saturday, March 30

American Mail Line Ltd.

has filed a registration statement for 49,602 shares of common stock (no par). For details see issue of March 21. **Offering**—Company is offering to common stockholders the right to subscribe for an aggregate of 49,602 shares of additional common stock at $20.50 per share on basis of 48/100 of a share for each share of common held. Company and principal stockholder, R. J. Reynolds of Miami Beach, Fla., desire to secure wider distribution of the common stock, and toward that end the underwriters have entered into an agreement with Mr. Reynolds whereby, as Mr. Reynolds' agent, they will offer to persons designated by him all shares of unsubscribed stock purchased by them from the company plus, as Mr. Reynolds' agent, up to 12,000 shares of additional common which Mr. Reynolds agrees to acquire through exercise of his subscription rights. The price to public is $20.60 per share. **Underwriters**—Blyth & Co., Inc.

Commonwealth Investment Co.

on March 11 filed a registration statement for 100,000 shares of capital stock ($1 par). For details see issue of March 14. **Offering**—Shares are to be offered at public offering price in effect at the time of sale. The offering price fluctuates from day to day in accordance with the changes in the net asset value. **Underwriters**—North American Securities Co., San Francisco, Calif.

Lion Oil Co.

on March 11 filed a registration statement for 150,000 shares of common stock (no par). For details see issue of March 14. **Offering**—Price to public will be filed by amendment. **Underwriters**—Underwriting group is headed by Blyth & Co., Inc.

Minnesota Mining & Manufacturing Co.

on March 11 filed a registration statement for an indeterminate number of common shares (no par). The shares are issued and are being sold by certain stockholders. For details see issue of March 14. **Offering**—Price to public will be filed by amendment. **Underwriters**—Goldman, Sachs & Co. and Piper, Jaffray & Hopwood.

Sunday, March 31

Alexander Smith & Sons Carpet Co.

on March 12 filed a registration statement for 50,000 shares of cumulative preferred stock (par $100) and 156,312½ shares of common stock (par $20). Dividend rate on preferred will be filed by amendment. For details see issue of March 14. **Offering**—The offering prices to the public will be filed by amendment. **Underwriters**—Morgan Stanley & Co., Dominick & Dominick, Harriman Ripley & Co., Inc., Goldman, Sachs & Co., Kidder, Peabody & Co., Lehman Brothers and Smith, Barney & Co.

Scott Paper Co.

on March 12 filed a registration statement for 65,000 shares of cumulative preferred stock (no par) and 67,065 shares of common stock (no par). Dividend rate on preferred will be filed by amendment. For details see issue of March 21. **Offering**—Company is offering to holders of common stock of record April 1 the right to subscribe to 67,065 common shares on basis of one additional share for each 12 shares held at a price to be filed by amendment. Unsubscribed common shares will be offered to public by underwriters at a price to be filed by amendment. **Underwriters**—Underwriting group is headed by Drexel & Co., Smith, Barney & Co., and Merrill Lynch, Pierce, Fenner & Beane.

Verity Porcupine Gold Mines, Ltd.

on March 12 filed a registration statement for 250,000 shares of common stock. For details see issue of March 14. **Offering**—Price to public is 50 cents per share. **Underwriters**—Mark Daniels & Co., 371 Bay Street, Toronto, Canada, is named underwriter.

Monday, April 1

American Air Filter Co., Inc.

on March 13 filed a registration statement for 101,086 shares of common stock (par $1). Shares are being sold by certain stockholders. For details see issue of March 21. **Offering**—Price to the public is $13.75 per share. **Underwriters**—Underwriters include Almstedt Bros., Equitable Securities Corp., Bankers Bond Co., W. E. Hutton & Co., and Stein Bros. & Boyce.

Reliance Manufacturing Co.

on March 13 filed a registration statement for 30,000 shares of cumulative convertible preferred stock (par $100) and 110,000 shares of common (par $5). The dividend rate on preferred stock will be filed by amendment. Preferred stock is being sold by company and common stock by certain stockholders. For details see issue of March 21. **Offering**—Prices to public will be filed by amendment. **Underwriters**—Union Securities Corp. heads the underwriting group.

Tuesday, April 2

Aro Equipment Corp.

on March 14 filed a registration statement for 30,000 shares of cumulative preferred stock, 4½% series (par $50) and 20,000 shares of common (par $2.50). For details see issue of March 21. **Offering**—The prices to the public will be filed by amendment. **Underwriters**—Central Republic Co., Inc., and Reynolds & Co.

Buffalo Forge Co.

on March 14 filed a registration statement for 60,000 shares of common stock (par $1). The shares are being sold by two stockholders. For details see issue of March 21. **Offering**—Price to the public will be filed by amendment. **Underwriters**—Hornblower & Weeks head the underwriting group.

Colorado Fuel & Iron Corp.

on March 14 filed a registration statement for 275,000 shares of common stock (no par). Shares are issued and are being sold by certain stockholders. For details see issue of March 21. **Offering**—Price to public according to the prospectus is "At the market"—on the New York Stock Exchange or other exchanges on which the stock is listed. **Underwriters**—There is no underwriting agreement. Stock will be sold from time to time at the prices then current on the New York Stock Exchange or other stock exchanges on which the stock is listed.

Peninsula Telephone Co.

on March 14 filed a registration statement for 80,000 shares of $1 cumulative preferred stock (par $25) and 26,799 shares of common stock (no par). For details see issue of March 21. **Offering**—Holders of outstanding 100,000 shares of $1.40 cumulative preferred class A (par $25) of record April 3 are offered the privilege to exchange 80% of their holdings for the $1 cumulative preferred stock on a share for share basis, plus a payment by the exchanging stockholder of an amount per share to be filed by amendment. The exchange privilege will commence April 5 and will expire April 15. Tolders of common stock will be given the right to subscribe to additional common shares on basis of one additional share for each five shares of common held of record April 3, 1946, at price to be filed by amendment. **Underwriters**—Morgan Stanley & Co., Coggeshall & Hicks, G. H. Walker & Co., White, Weld & Co.

Publicker Industries, Inc.

on March 14 filed a registration statement for 400,000 shares of common stock (par $5). The shares are being sold by certain stockholders. For details see issue of March 21. **Offering**—The price to the public will be filed by amendment. **Underwriters**—Group is headed by Merrill Lynch, Pierce, Fenner & Beane.

Wednesday, April 3

Benguet Consolidated Mining Co.

on March 15 filed a registration statement for 702,302 shares of capital stock value (par 1 peso, equivalent in U. S. currency to 50 cents per share). The shares are part of a total of 852,302 shares purchased by Allen & Co., from five stockholders. Of the 852,302 shares, 150,000 were sold privately at the cost price to Allen & Co. Purchase price to Allen was $2.10 per share. **Offering**—The offering price will be supplied by amendment. **Underwriters**—Allen & Co. is named principal underwriter.

Monsanto Chemical Company

on March 15 filed a registration statement for 316,967 shares of cumulative preference stock, series A (no par) convertible into common before June 1, 1956. Dividend rate will be filed by amendment. For details see issue of March 21. **Offering**—The 316,967 shares of new preference stock are being offered to holders of common stock on the basis of one share of preference for each four shares of common held of record April 8. Rights will expire 3 p.m., April 24, 1946. Price to be filed by amendment. **Underwriters**—Smith, Barney & Co. heads the underwriting group.

Samson United Corporation

on March 15 filed a registration statement for 125,000 shares of cumulative convertible preferred stock (par $8) and 166,666 shares of common stock (par $1). Dividend rate on preferred will be filed by amendment. The 166,666 shares of common which constitute 51.4% of the outstanding common are being sold by Clark-Babbitt Industries, Inc. For details see issue of March 21. **Offering**—Prices of preferred and common to public will be filed by amendment. **Underwriters**—Burr & Co., Inc., heads the underwriting group.

Saturday, April 6

Central Maine Power Co.

on March 18 filed a registration statement for 220,000 shares of preferred stock ($100 par). Dividend rate will be filed by amendment. For details see issue of March 21. **Offering**—Company will offer to holders of 7% preferred, $6 preferred and 5% $50 preferred stock the right to exchange such stock on the basis of one share of new preferred for each $100 par value of old preferred plus a cash adjustment. All outstanding shares of old preferred not exchanged will be called for redemption on July 1, 1946. The balance of new preferred stock will be sold to underwriters, to be selected by competitive bidding, for resale to the public. Offering price to the public will be filed by amendment. **Underwriters**—Names of underwriters will be filed by amendment.

Compania Litgrofica De La Habana S. A.
(Havana Lithographing Co.)

on March 18 filed a registration statement for 19,419 shares of 6% cumulative convertible preferred stock (par $25) and 197,000 shares of common (par 10c). All of the 19,419 shares of preferred and 162,000 shares of the 197,000 common are being purchased by the underwriters from certain stockholders. The remaining 35,000 shares of common are being purchased from the company. For details see issue of March 21. **Offering.**—Prices to public will be filed by amendment. **Underwriters**—Hirsch & Co., New York, is principal underwriter.

Sunday, April 7

Allianceware, Inc.

on March 19 filed a registration statement for 12,000 shares of $2.50 convertible preferred stock (par $50) and 25,000 shares of common (par $1). Common shares are being sold by certain stockholders. For details see issue of March 21. **Offering**—Prices to the public will be filed by amendment. **Underwriters**—Principal underwriters are Hayden, Miller & Co., Hawley, Shepard & Co. and Maynard H. Murch & Co.

Flintkote Company

on March 19 filed a registration statement for 150,000 shares of common stock (no par). **Address**—30 Rockefeller Plaza, New York, N. Y. **Business**—Various asphalt and asbestos-cement roofing and siding products, structural and decorative insulating board products, etc. **Offering**—Price to public will be filed by amendment. **Proceeds**—Proceeds will be used for acquisition and construction of additional plant facilities and equipment. In addition to proceeds from sale of common stock, company received $2,775,000 from sale of 25,000 shares of $4 cumulative preferred, sold privately by Lehman Brothers at $111 per share during current month. Proceeds from sale of preferred stock will be added to working capital and used for general corporate purposes. **Underwriters**—Lehman Brothers heads underwriting group. **Registration Statement** No. 2-6237. Form S-1.

Harrisburg Gas Co.

on March 19 filed a registration statement for $2,200,000 first mortgage bonds due May 1, 1971. Bonds will be offered for sale at competitive bidding and interest rate filed by amendment. **Address**—14 South Market Street, Harrisburg, Pa. **Business**—Public utility. **Offering**—Price to public will be filed by amendment. **Proceeds**—Net proceeds are to be applied to redemption on June 1, 1946 at 105 of an equal amount of first mortgage 5% bonds requiring $2,310,000. Company will use general funds to extent necessary and to pay accrued interest. **Underwriters**—To be filed by amendment. **Registration Statement** No. 2-6240. Form S-1.

Stromberg-Carlson Company

on March 19 filed a registration statement for 67,731 shares of convertible preferred stock (par $50). Divi-

(Continued on page 1680)

Corporate and Public Financing

The FIRST BOSTON CORPORATION

New York • Boston • Chicago and other cities

Calendar of New Security Flotations

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dend rate will be filed by amendment. For details see issue of March 21. **Offering**—Company is offering to holders of common stock pro rata rights to subscribe to new preferred on basis of one share of preferred for each four shares of common held of record April 8, at price to be filed by amendment. Price to the public will be filed by amendment. **Underwriter**—First Boston Corp. is named principal underwriter.

Tennessee Gas & Transmission Co.

on March 19 filed a registration statement for $35,000,000 first mortgage pipe line bonds due 1966; 100,000 shares 4.10% cumulative preferred stock ($100 par) and 484,444 shares of common stock ($5 par). Of the common stock, 350,000 shares are to be purchased by underwriters from company, and 134,444 shares are being purchased from certain stockholders. **Address**—Commerce Building, Houston, Texas. **Business**—Operates a natural gas transmission pipe line system, extending from the Stratton-Agua Dulce field in Texas to West Virginia. **Offering**—Prices to public will be filed by amendment. **Proceeds**—Of net proceeds to be received by company from sale of bonds, preferred stock and 350,000 shares of common and from $10,000,000 bank loan, company will apply $36,078,625 to redemption of $34,525,000 first mortgage pipe line bonds 3% series at 104½; $8,100,000 to redemption of 75,000 shares of 5% cumulative preferred stock at $108 per share, and $15,000,000 to repayment of 2% bank loan. Remainder will be added to general funds of company. Proceeds from sale of 134,444 shares of common will go to selling stockholders. First Boston Corp., 53,172 shares; Mellon Securities Corp., 53,172; White, Weld & Co., 18,100, and Central Republic Co., Inc., 10,000. **Underwriters**—Group is headed by Stone & Webster Securities Corp. and White, Weld & Co. **Registration Statement** No. 2-6238. Form S-1.

Tex-O-Kan Flour Mills Co.

on March 19 filed a registration statement for 40,000 shares of cumulative preferred stock (par $100). Dividend rate will be filed by amendment. **Address**—Mercantile Bank Building, Dallas, Texas. **Business**—Flour milling, terminal grain elevator operations, feed milling and bag manufacturing. **Offering**—Company is offering to holders of 26,710 shares of 7% preferred stock an opportunity to exchange such stock for new preferred on a share for share basis, with an adjustment of dividends. Underwriters will purchase any unexchanged new preferred shares plus 13,290 additional shares of new preferred which will be offered to public at a price to be filed by amendment. **Proceeds**—Will be used to redeem at $103 per share any shares of old stock not exchanged for new and to increase working capital. **Underwriters**—Group headed by Kidder, Peabody & Co. and Rauscher, Pierce & Co., Inc. **Registration Statement** No. 2-6239. Form S-1.

Monday, April 8

C. J. Hendry Company

on March 20 filed a registration statement for 24,000 shares of preferred stock, 5½% cumulative (par $25). **Address**—27 Main Street, San Francisco, Calif. **Business**—General wholesale and retail ship chandlery and commercial fishing supplies business. **Offering**—Price to the public $25 per share. **Proceeds**—From sale of preferred stock, and of $750,000 10-year promissory note will be used with $499,063 other funds to pay in full $1,789,063 of temporary indebtedness incurred to complete the purchase of outstanding capital stock of predecessor. **Underwriters**—First Califoria Co. is named principal underwriter. **Registration Statement** No. 2-6244. Form S-1.

National Company, Inc.

on March 20 filed a registration statement for 200,000 shares of common stock (par $1). Company is selling 50,000 shares and certain stockholders are selling 150,000 shares. **Address**—61 Sherman Street, Malden, Mass. **Business**—Manufacture of radio receiving and transmitting apparatus. **Offering**—Price to public $6 per share. **Proceeds**—To company will be used to increase net working capital in order to permit company to build up an inventory for civilian business, to carry receivables, to purchase new machinery and equipment, etc. **Underwriters**—Bond & Goodwin, Inc., heads group. **Registration Statement** No. 2-6241. Form S-2.

Perfex Corporation

on March 20 filed a registration statement for 7,500 shares 4½% cumulative preferred stock (par $100) and 26,164 shares of common stock ($4 par). **Address**—500 W. Oklahoma Avenue, Milwaukee, Wis. **Business**—Industrial engine radiators, etc. **Offering**—Common stock is being offered to common stockholders on basis of one share of new common for each five shares held at a price to be filed by amendment. Unsubscribed common shares and preferred stock will be publicly offered by underwriters at prices to be filed by amendment. Net proceeds will be available for general corporate purposes and will be added to company's working capital pending specific allocation. **Underwriters**—Wisconsin Co. heads group. **Registration Statement** No. 2-6243. Form S-1.

Pressed Steel Car Co., Inc.

on March 20 filed a registration statement for 100,000 shares of common stock (par $1). **Address**—2500 Koppers Building, Pittsburgh, Pa. **Business**—Manufacture, sale and repair of railway freight and passenger cars, subway and industrial cars, etc. **Offering**—Price to public will be filed by amendment. **Proceeds**—Will be applied on account of purchase price of physical assets of Mt. Vernon Car Manufacturing Co., a wholly-owned subsidiary of H. K. Porter Co., Inc. Balance of purchase price will be provided out of general funds of company. In addition to fixed assets of Mt. Vernon, Pressed Steel Car will also purchase inventory of materials and supplies on hand at the take-over date July 1, 1946. Mt. Vernon has estimated that such inventory will approximate $600,000. Payment therefor will be made out of Pressed Steel Car's general funds, as will working capital for operation of Mt. Vernon plant after acquisition. **Underwriters**—Kuhn, Loeb & Co. heads group. **Registration Statement** No. 2-6242. Form S-1.

Utah Power & Light Co.

on March 20 filed a registration statement for $32,000,000 first mortgage bonds due May 1, 1976. Bonds will be sold at competitive bidding with interest rate to be filed by amendment. **Address**—Kearns Building, Salt Lake City, Utah. **Business**—Public utility. **Offering**—Price to the public will be filed by amendment. **Proceeds**—Net proceeds from sale of bonds, and $11,500,000 bank loans and cash from general funds, will be used to redeem $38,500,000 3¾% first mortgage bonds at 104¾, and $5,000,000 6% gold debentures at 110% which, exclusive of interest, will require $45,828,750. **Underwriters**—To be filed by amendment. **Registration Statement** No. 2-6245. Form S-1.

Tuesday, April 9

Bendix Home Appliances, Inc.

on March 21 filed a registration statement for 104,301 shares of common stock (par 33⅓ cents per share.) **Address**—3300 West Sample Street, South Bend, Ind. **Business**—Manufacture of Bendix Home Laundry, an automatic washing machine. **Offering**—Company is offering to common stockholders of record March 30, right to subscribe to one share of new common for each 10 shares held at a price to be filed by amendment. Issue is not being underwritten, but holders of common of record on March 30, 1946, in addition to their pro rata subscription rights, will also be given an opportunity to purchase any shares which have not been purchased through subscription warrants. **Proceeds**—Will be used for additional working capital to finance the purchase of inventories and increase production to fill orders now on hand and anticipated. It is estimated that the production and sales of Bendix Home Laundries, when industrial disputes have been settled and materials and supplies are available, will total 50,000 per month, or a total sales volume per month of approximately $4,000,000. **Underwriters**—None. **Registration Statement** No. 2-6247. Form S-2.

Cuban Atlantic Sugar Co.

on March 21 filed a registration statement for 30,000 shares 5% cumulative preferred stock (par $100) and 175,000 shares of common (par $5). Of the total 20,000 shares of preferred and 137,500 shares of common are to be purchased by underwriters from company; and 10,000 shares of preferred and 37,500 shares of common from Hershey Trust Co., trustee of Hershey Industrial School of Hershey, Pa. Shares to be purchased from trustee are part of 40,000 shares of preferred and 137,500 shares of common to be issued by company to the trustee as part of the consideration for certain assets to be acquired by Cuban Atlantic. **Address**—99 Wall St., New York, N. Y. **Business**—Sugar. **Offering**—Prices to public will be filed by amendment. **Proceds**—The 30,000 shares of preferred and 175,000 shares of common to be offered form part of 60,000 shares of preferred and 275,000 shares of common which are being issued by Cuban Atlantic for purpose of acquiring all the outstanding securities (except directors' qualifying shares) of the corporations which constitute the Hershey sugar mills, refinery, railroad and other enterprises in Cuba. **Underwriters**—Group is headed by Wertheim & Co., and Ladenburg, Thalmann & Co. **Registration Statement** No. 2-6249. Form S-1.

Hearn Department Stores, Inc.

on March 21 filed a registration statement for 100,000 shares of common stock ($5 par). Shares are being sold by Endicott Co., Inc., a stockholder, which on Feb. 1, 1946, owned approximately 48% of the outstanding stock, including shares to be offered. Endicott Company is wholly-owned by Maurice Levin, chairman of board of Hearn. Following the sale Endicott Company will hold a balance of 36,879 shares of Hearn. **Address**—74 Fifth Avenue, New York, N. Y. **Business**—Department store. **Offering**—Price to public will be filed by amendment. **Underwriters**—E. W. Clucas & Co., and H. M. Byllesby & Co., Inc., are named principal underwriters. **Registration Statement** No. 2-6248. Form S-1.

Norwalk Tire & Rubber Co.

on March 21 filed a registration statement for $1,444,500 convertible debentures due April 15, 1956. Interest rate will be filed by amendment. **Address**—Norwalk, Conn. **Business**—Automobile, truck and bus rubber tires and tubes, etc. **Offering**—Company is offering to common stockholders right to subscribe for new debentures at rate of one $500 debenture for every 70 shares of common stock held at a price to be filed by amendment. Unsubscribed debentures will be purchased by underwriters who will offer them to the public at a price to be filed by amendment. **Proceeds**—Part of the proceeds will be applied to the payment of bank loan; approximately $265,000 will be expended for completion of certain unfinished buildings erected by government and purchased from RFC and approximately $200,000 will be used for modernization. Proceeds of bank loan were used to extent of $503,930 to redeem on April 1, 1946 company's 7% cumulative preferred stock and partly for purchase of buildings from RFC. Balance of the proceeds will be added to working capital. **Underwriters**—Carl M. Loeb, Rhoades & Co. is named principal underwriter. **Registration Statement** No. 2-6246. Form S-1.

Pennsylvania Electric Co.

on March 21 filed a registration statement for $23,500,000 first mortgage bonds, due 1976, and 101,000 shares of cumulative preferred stock, series C, par $100. Securities will be sold at competitive bidding, and interest and dividend rates will be filed by amendment. **Address**—222 Levergood Street, Johnstown, Pa. **Business**—Public utility. **Offering**—Prices to public will be filed by amendment. **Proceeds**—Net proceeds from sale of the bonds and preferred stock, together with proceeds ($5,000,000) to be received by company from sale of 10-year serial notes and proceeds ($1,376,860), to be received from sale of 68,843 shares of common stock to Associated Electric Co. will be applied toward the payment to Pennsylvania Edison Co. of $42,451,400, being purchase price for acquisition by company of all of the assets of Pennsylvania Edison Co. subject to certain liabilities. **Underwriters**—To be filed by amendment. **Registration Statement** No. 2-6250. Form S-1.

Wednesday, April 10

American Molasses Company

on March 22 filed a registration statement for 105,000 shares of common stock (par $1). Shares are being sold by certain stockholders. **Address**—120 Wall Street, New York, N. Y. **Business**—Refining and distribution of granulated cane sugar, production of liquid sugar, sugar syrups, edible molasses, etc. **Offering**—Price to public will be filed by amendment. **Underwriters**—Hornblower & Weeks and Union Securities Corp. head the group, with names of others to be filed by amendment. **Registration Statement** No. 2-6256. Form S-1.

Drackett Company

on March 22 filed a registration statement for 108,000 shares of 4% cumulative convertible preferred stock, series A (par $25). **Address**—5020 Spring Grove Avenue, Cincinnati, Ohio. **Business**—Chemical manufacturing. **Offering**—Price to public is $25 per share. **Proceeds**—Will be used to redeem at 106½ $1,467,000 5% 15-year debentures, and to redeem at $21.50 per share 37,500 shares of 5% preferred stock. Balance of proceeds will be applied to general corporate purposes. **Underwriters**—Underwriting group is headed by Van Alstyne, Noel & Co. **Registration Statement** No. 2-6253. Form S-1.

Fruehauf Trailer Company

on March 22 filed a registration statement for 125,000 shares of cumulative stock (par $100). Dividend rate will be filed by amendment. **Address**—10940 Harper Avenue, Detroit, Mich. **Business**—Manufacturer of truck-trailers. **Offering**—Price to public will be filed by amendment. **Proceeds**—From net proceeds approximately $8,900,000 will be expended for construction, acquisition of, or additions to, manufacturing facilities for production of truck trailers. This amount will be applied to programs presently in progress at the following locations: erection and equipment of a plant at Avon Lake, Ohio, approximately $7,600,000; an addition to plant and equipment in Fort Wayne, Ind., division, approximately $800,000; and an addition to plant at Vernon, Calif., approximately 500,000. A program for erection and equipment of a new plant at Pomona, Calif., is under consideration, but no final determination has been made. Estimates in connection with this plant are placed at $2,900,000, and, if finally determined upon, it is possible a portion of net proceeds might be expended for such purposes. It is stated that if developments require funds in excess of net proceeds it may be advisable to provide additional funds through the sale of stock, bank borrowing or other financing, but company has no present plans for such additional financing. **Underwriters**—Lehman Brothers and Watling, Lerchen & Co. head group. **Registration Statement** No. 2-6254. Form S-1.

Palmetex Corporation

on March 22 filed a registration statement for 250,000 shares common stock (par $1). **Address**—Pinellas Park, Florida. **Business**—Production of cement board products and palmetto products, all primarily for use in the building industry. **Offering**—Price to the public is $3.25 per share. **Proceeds**—Will be applied for purchase of a plant occupied by company under lease, for a new dryer, for repayment of notes and royalties and balance for working capital. **Underwriters**—Floyd D. Cerf Co., Inc., Chicago, is named principal underwriter. **Registration Statement** No. 2-6255. Form S-2.

St. Joseph Light & Power Co.

on March 22 filed a registration statement for $3,750,000 first mortgage bonds due April 1, 1976. Bonds will be sold at competitive bidding with successful bidder naming interest rate. **Address**—520 Francis Street, St. Joseph,

Mo. **Business**—Public utility. **Offering**—Price to the public will be filed by amendment. **Proceeds**—To be used to redeem $3,635,000 first mortgage bonds, 4½% series due 1947, at 100 and any balance will be added to treasury funds for construction purposes. Accrued interest will be paid out of general funds. **Underwriters**—To be filed by amendment. **Registration Statement**—No. 2-6251. Form S-1.

United Biscuit Co. of America

on March 22 filed a registration statement for $10,000,000 debentures due April 1, 1966. Interest rate will be filed by amendment. **Address**—1041 West Harrison St., Chicago, Ill. **Business**—Manufacture of varied lines of crackers, cookies and biscuits. **Offering**—Price to the public will be filed by amendment. **Proceeds**—Will be applied to redemption of $4,270,000 3½% debentures due April 1, 1955, at 103½ and of 25,000 shares of 5% cumulative preferred stock at $107.50 per share, requiring, exclusive of accrued interest and dividends, a total of $7,106,950. The remainder of proceeds will be added to the general funds. **Underwriters**—Goldman, Sachs & Co. heads group. **Registration Statement** No. 2-6252. Form A-2.

Saturday, April 13

Bowser, Inc.

on March 25 filed a registration statement for 200,000 shares of $1.20 cumulative preferred stock (par $25), with common stock purchase warrants attached. **Address**—1302 E. Creighton Avenue, Fort Wayne, Ind. **Business**—Manufacture of liquid control devices, etc. **Offering**—Price to the public will be filed by amendment. **Proceeds**—Of net proceeds $423,100 will be applied to redemption of first mortgage 5% sinking fund bonds, $1,610,650 to redemption of 5% sinking fund debenture bonds, and $982,800 to redemption of the first preferred stock. Balance will be added to working capital. **Underwriters**—Blair & Co., Inc., New York, heads group. **Registration Statement** No. 2-6257. Form S-1.

Kingston Products Corporation

on March 25 filed a registration statement for 148,448 shares of common stock (par $1). Shares are being sold by certain stockholders. **Address**—1412 North Webster Street, Kokomo, Ind. **Business**—Manufacture of automobile parts, radio receiving sets, vacuum cleaners, hydraulic lifting devices, etc. **Offering**—Price to the public will be filed by amendment. **Underwriters**—Alison & Co., Detroit, heads group. **Registration Statement** No. 2-6258. Form S-1.

F. H. McGraw & Co.

on March 25 filed a registration statement for 36,000 shares of $1.50 preferred stock (no par) and 100,000 shares of common (par 10 cents). **Address**—780 Windsor Street, Hartford, Conn. **Business**—Industrial construction. **Offering**—Prices to public will be filed by amendment. **Proceeds**—Financing is in connection with proposed recapitalization of company. The capital stock is to be reclassified so that outstanding 1,250 shares of common stock are to be reclassified into 100,392 shares of class A stock, 75,000 shares of common stock and simultaneously 36,000 shares of preferred stock and an additional 250,000 shares of common are to be authorized. Out of proceeds of present financing, company will apply $383,971 to payment of notes issued to F. H. McGraw and J. Metz McGraw in connection with purchase of their shares of company's former or old common stock. Balance of net proceeds will be added to working capital. **Underwriters**—Granbery, Marache & Lord and Bear, Stearns & Co. head the group. **Registration Statement** No. 2-6260. Form S-1.

Public Service Co. of Indiana, Inc.

on March 25 filed a registration statement for 150,000 shares of cumulative preferred stock (par $100). Dividend rate will be filed by amendment. **Address**—110 North Illinois Street, Indianapolis, Ind. **Business**—Public utility. **Offering**—Company proposes to issue the 150,000 shares of new preferred for purpose of refinancing at a lower dividend rate the 148,186 outstanding shares of old preferred, 5% cumulative, series A. Exchange will be on a share for share basis with cash adjustment. Any of the 150,000 shares not issued under exchange offer will be sold for cash to underwriters, and proceeds applied with treasury funds to redemption of unexchanged old preferred shares. The services in effecting the exchange offer and sale of unexchanged preferred will be at competitive bidding. **Purpose**—To refinance outstanding preferred stock. **Underwriters**—To be supplied by amendment. **Registration Statement** No. 2-6259. Form S-1.

Sonotone Corporation

on March 25 filed a registration statement for 60,000 shares $1.25 cumulative convertible preferred stock, series A (par $20). **Address**—Elmsford, N. Y. **Business**—Hearing-aid instruments. **Offering**—Price to public is $25 per share. **Proceeds**—Of proceeds, $250,000 will be used to retire a bank note and approximately $550,000 to reacquire from a bank all of the customers' instalment payment contracts previously sold to the bank. The balance will be used to augment working capital. **Underwriters**—Group is headed by Van Alstyne, Noel & Co. **Registration Statement** No. 2-6261. Form S-1.

Sunday, April 14

Avon Allied Products, Inc.

on March 26 filed a registration statement for 37,220 shares of 4% cumulative preferred stock (par $50) and 100,000 shares of common (no par). Of the total, company is selling 20,200 shares of preferred and certain stockholders are selling 17,020 shares of preferred and 100,000 shares of common. **Address**—30 Rockefeller Plaza, New York, N. Y. **Business**—Cosmetics and toiletries. **Offering**—Prices to public will be filed by amendment. **Proceeds**—Of the proceeds to be received by company from the sale of 20,200 shares of preferred stock, $500,000 will be used to make a loan to company's subsidiary, Avon Products, Inc., to apply in reduction of $1,750,000 2¼% bank loan. Balance of proceeds, with other funds, will be used to expand and modernize facilities of company and its subsidiaries. **Underwriters**—Group is headed by Hemphill, Noyes & Co., F. S. Moseley & Co. and H. F. Boynton & Co., Inc. **Registration Statement** No. 2-6263. Form A-2.

Red Top Brewing Company

on March 26 filed a registration statement for 150,000 shares of class A common stock (par $1). Shares are being sold by certain stockholders. **Address**—1747 Central Avenue, Cincinnati, O. **Business**—Malt beverages, beer and ale. **Offering**—Offering price to public is $10.50 per share. **Underwriters**—Group is headed by Westheimer & Co., Cruttenden & Co., A. G. Edwards & Sons, Loewi & Co., Stein Bros. & Boyce, the Ohio Company and Piper, Jaffray & Hopwood. **Registration Statement** No. 2-6262. Form S-1.

DATES OF OFFERING UNDETERMINED

We present below a list of issues whose registration statements were filed twenty days or more ago, but whose offering dates have not been determined or are unknown to us.

American Airlines, Inc.

on March 4 filed a registration statement for 97,350 shares of common stock (par $5). For details see issue of March 7. **Offering**—Company is offering to issue 97,350 shares of its common stock to all stockholders of Mid-Continent Airlines, Inc., in exchange for common stock of Mid-Continent in ratio of one share of common stock of American for each four shares of common stock of Mid-Continent (par $1). **Underwriting**—None named.

American Metal Products Co.

on March 6 filed a registration statement for 150,000 shares of common stock ($2 par). The shares are being sold by five stockholders. For details see issue of March 14. **Offering**—Price to public will be filed by amendment. **Underwriters**—Watling, Lerchen & Co., Detroit, heads underwriting group.

American Potash & Chemical Corp.

on Dec. 28 filed a registration statement for 478,194 shares of capital stock (no par). Shares are issued and outstanding and are being sold by the Alien Property Custodian. For details see issue of Jan. 3. **Underwriters**—The Alien Property Custodian proposes to sell the 478,194 shares of stock at public sale to the highest qualified bidder. Bids were to be received at office of the Custodian, 120 Broadway, New York 5, N. Y., before 11 a.m. (EST) on March 27.

Ampal-American Palestine Trading Corp.

on Oct. 3 filed a registration statement for 400,000 shares of 4% cumulative preferred non-voting shares. For details see issue of Oct. 11. **Offering**—Price to the public is $5.50 per share. **Underwriters**—Shares will be sold through the efforts of the directors and employees of the corporation.

Atlas Imperial Diesel Engine Co.

on Feb. 28 filed a registration statement for 30,000 shares of series A cumulative preferred stock ($50 par). Dividend rate will be filed by amendment. For details see issue of March 7. **Underwriters**—Blyth & Co., Inc., heads the underwriting group.

Bassett Furniture Industries, Inc.

on Feb. 26 filed a registration statement for 30,000 shares of common stock (par $5). The stock is to be purchased from W. M. Bassett, President. For details see issue of Feb. 27. **Offering**—Price to the public is $30 per share. **Underwriters**—Scott, Horner & Mason, Inc., Lynchburg, Va., and Kirchofer and Arnold, Inc., Raleigh, N. C., are the principal underwriters.

Bendix Helicopter, Inc.

on Feb. 13 filed a registration statement for 507,400 shares of common stock (par 50c). Shares are being sold for the account of the estate of Vincent Bendix, deceased. For details see issue of Feb. 20. **Offering**—Shares will be sold in the over-the-counter market. **Underwriters**—Kobbe, Gearhart & Co., Inc., is named principal underwriter.

E. W. Bliss Co.

on March 7 filed a registration statement for 100,000 shares of $2.25 convertible preferred stock (no par). For details see issue of March 14. **Offering**—The price to the public will be filed by amendment. **Underwriters**—Allen & Co.

(F.) Burkart Manufacturing Co.

on Feb. 28 filed a registration statement for 10,000 shares of common stock (par $1). Shares are being sold by certain stockholders. For details see issue of March 7. **Offering**—Price to the public will be filed by amendment. **Underwriters**—G. H. Walker & Co., St. Louis, principal underwriter.

Cardiff Fluorite Mines, Ltd.

on March 6 filed a registration statement for 250,000 shares of common stock (par $1). For details see issue of March 14. **Offering**—Price to public is 60 cents a share, Canadian funds. Arrangements have been made with registrant to sell 500,000 shares at 40 cents per share to net company $200,000. It is intended that 250,000 of these shares shall be offered in the United States and 250,000 of same offered in Canada. F. R. Marshall has subscribed for 100,000 shares at 40 cents per share to net the treasury $40,000, with the understanding that he will later purchase on additional 400,000 shares at same price. **Underwriters**—Frank P. Hunt, 42 East Avenue, Rochester, N. Y., will handle the issue in the United States.

Chain Store Investment Corp.

on Feb. 8 filed a registration statement for 15,000 shares of 4½% cumulative convertible preferred stock (par $50) and 100,000 shares of common (par 10c). For details see issue of Feb. 14. **Offering**—The preferred stock will be offered to public by underwriters at a price to be filed by amendment. The 100,000 shares of common stock are initially being offered by the corporation for subscription to common stockholders at a price to be filed by amendment, but 50 cents per share under public offering price. The unsubscribed balance of common will be offered to the public by underwriters at a price to be filed by amendment. **Underwriters**—As to the preferred, Childs, Jeffries & Thorndike, Inc., and H. C. Wainwright & Co., and as to the common, First Colony Corp.

Clinton Industries, Inc.

on March 5 filed a registration statement for 100,000 shares of capital stock (par $1). For details see issue of March 14. **Offering**—Price to public will be filed by amendment. **Underwriters**—Smith, Barney & Co. and Newhard, Cook & Co. head the underwriting group.

Cribben & Sexton Co.

on Feb. 28 filed a registration statement for 40,000 shares 4½% cumulative convertible preferred stock (par $25) and 45,000 shares of common (par $5). The preferred and 5,695 shares of common are being offered by company and 39,305 shares of common by certain stockholders. For details see issue of March 7. **Offering**—Price of preferred to public is $25 per share and of common $13.50 per share. **Underwriters**—Paul H. Davis & Co., Chicago, is named principal underwriter.

Dallas Title & Guaranty Co.

on Feb. 21 filed a registration statement for 25,000 shares of capital stock (par $10). For details see issue of Feb. 27. **Offering**—Company has granted holders of capital stock rights to subscribe at $20 per share to new stock at rate of one share of new for each share held. Company reserves right to sell any unsubscribed stock at public or private sale at $20 per share. **Underwriters**—None named.

Dallas Yellow Knife Gold Mines, Ltd.

on Feb. 8 filed a registration statement for 300,000 shares of capital stock (par $1). For details see issue of Feb. 14. **Offering**—Shares are offered at 50 cents per share as a speculation. **Underwriter**—Mark Daniels, 1840 Morris Building, Philadelphia, Pa., and 371 Bay Street, Toronto, is named underwriter, with commission of 30% and 5% additional allowance to cover advertising and traveling expenses.

District Theatres Corp.

on Feb. 26 filed a registration statement for 140,000 shares of common stock (par $1). Shares are being sold by certain stockholders. For details see issue of March 7. **Offering**—Price to the public will be filed by amendment. **Underwriters**—First Colony Corp., Simons, Linburn & Co., Inc., Courts & Co., Johnston, Lemon & Co., Irving J. Rice & Co., Ira Haupt & Co., and Coburn & Middlebrook.

Drug Products Co., Inc.

on Feb. 25 filed a registration statement for 225,000 shares of common stock (par $1). Of total 175,000 shares are being offered to public through underwriters and 50,000 shares are offered to warrant holders. For details see issue of Feb. 27. **Offering**—Price to public on 175,000 shares is $4.50 a share. **Underwriters**—Bond & Goodwin, Inc., is named principal underwriter.

Eaton Manufacturing Co.

on March 7 filed a registration statement for 178,364 shares of common stock (par $4). For details see issue of March 14. **Offering**—Company is offering the new stock to holders of its common stock at rate of one new share for each four common shares. Price to be filed by amendment. Company is selling the unsubscribed stock to underwriters who will offer it to the public. **Underwriters**—Merrill Lynch, Pierce, Fenner & Beane heads the underwriting group.

Electromaster, Inc.

on March 4 filed a registration statement for 200,000 shares of common stock (par $1). For details see issue of March 7. **Offering**—Price to the public is $4.375 per share. **Underwriters**—S. R. Livingstone & Co. and Mercier, McDowell & Dolphyn, Detroit.

Equipment Finance Corp.

on Feb. 25 filed a registration statement for 13,877 shares 4% cumulative series 2 preferred (par $100) and 28,159 shares of common (par $10). For details see

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Calendar of New Security Flotations

(Continued from page 1681)

issue of Feb. 27. **Offering**—Price to public is $100 per share for preferred and $10 per share for the common. Company anticipates that all of the preferred and common will be sold to employees and officers of the company, and employees and officers of Curtiss Candy and its subsidiaries. In the event of a public offering, company will file a post-effective amendment. **Underwriters**—Sale of stock will be made through company's own officers and employees.

Garthack Mining Co., Ltd.

on March 4 filed a registration statement for 300,000 shares of capital stock. For details see issue of March 7. **Offering**—The price to the public is 50 cents per share. **Underwriters**—Mark Daniels, 371 Bay Street, Toronto, Canada, holds an option on 300,000 shares of capital stock. His plan of distribution is to allot the stock optioned by him to different American brokers and allow them a commission of 25% for selling. **Registration Statement** withdrawn March 21.

Giant Yellowknife Gold Mines, Ltd.

on Feb. 21 filed a registration statement for 81,249 common shares ($1 par, Canadian). Shares are being offered to residents of United States and Canada by Toronto Mines Finance Ltd. These shares are part of a recent offering of an aggregate of 525,000 shares offered by the company in Canada to its own shareholders at $5 (Canadian) per share. For details see issue of Feb. 27. **Offering**—The offering price is $5.10 (Canadian) per share, or the United States equivalent. Toronto Mines Finance Ltd. intends to offer 44,195 of such shares in blocks of not less than five shares to shareholders of Frobisher Exploration Co., Ltd., of record Dec. 15, 1945, as resident in the United States in the approximate ratio of one share for every 15 shares of Frobisher then owned by them, and to shareholders of Ventures, Ltd., of record Dec. 15, 1945, as resident in the United States, in the approximate ratio of one share for every 20 shares of Ventures then owned by them. The balance will be offered in Canada and the United States to such persons as Toronto Mines Finance, Ltd., may determine, who may include officers and employees of the company. **Underwriters**—Toronto Mines Finance, Ltd., 25 King Street, West Toronto, is named underwriter. It is wholly owned and controlled by its parent company, Ventures, Ltd.

Glore Aircraft Corp.

on March 6 filed a registration statement for 150,000 shares of 5½% cumulative convertible preferred stock (par $10). For details see issue of March 14. **Offering**—Corporation was organized in Delaware, Feb. 23, 1946, for purpose of acquiring the assets of Globe Aircraft Corp. (Texas). Pursuant to reorganization plan, company acquired all of the assets of the Texas company and in consideration therefor issued to the Texas company 450,000 shares of common stock, and agreed to assume the liabilities of the Texas company. Pursuant to the plan, the Texas company will distribute on a share for share basis to holders of its common stock the shares of common stock in the Delaware company which the Texas company has received and the Texas company will be dissolved. Company is offering holders of common stock all of the preferred stock on the basis of one share preferred for each 3 shares of common at $9 per share. Company has agreed with Kobbe, Gearhart & Co., Inc., and Newburger & Hano to sell to them that portion of the offering which may not be subscribed for by the common stockholders. The public offering price is $10 per share. **Underwriters**—Kobbe, Gearhart & Co., Inc., and Newburger & Hano.

Adolf Gobel, Inc.

on Jan. 10 filed a registration statement for 412,899 shares of common stock (par $1). Shares are being sold on behalf of the Adolf Gobel, Inc., syndicate. For details see issue of Jan. 17. **Offering**—Common stock will be sold through regular market channels over the New York Curb Exchange at best price obtainable in small lots so as not to unduly depress the market. The proposed stock offering constitutes 63.9% of the company's outstanding common stock. There are 12 members in the syndicate. **Underwriters**—No underwriting discounts and commissions are being paid.

Gold City Porcupine Mines, Ltd.

on Jan. 4 filed a registration statement for 600,000 shares of common stock (par $1) Canadian currency. For details see issue of Jan. 10. **Offering**—Company is offering common stock to public at 50 cents U. S. currency per share. If company accepts offers from dealers to purchase the stock, company will sell to such dealers, if any, at 32.5 cents U. S. currency per share for resale at 50 cents U. S. currency per share. The estimated proceeds to be raised is $300,000 U. S. currency maximum, and $195,000 U. S. currency minimum, if all shares are sold, and assuming in any event that all the shares are sold. **Underwriters**—No underwriters named.

Graham-Paige Motors Corp.

on Feb. 21 filed a registration statement for $12,000,000 4% secured convertible debentures due March 1, 1956, and an indeterminate number of common shares to be reserved for issuance upon the conversion of the debentures, and 25,000 shares of common, which shares may be issued to Allen & Co., New York, pursuant to a proposed standby agreement. For details see issue of Feb. 27. **Offering**—Price to the public will be filed by amendment. **Underwriters**—Allen & Co., New York.

Gulf Atlantic Transportation Co.

on Jan. 17 registered 270,000 shares of common stock (par $1). For details see issue of Jan. 24. **Offering**—Price to the public will be filed by amendment. The securities are being offered initially for a period of 15 days to present shareholders under preemptive rights at a price to be filed by amendment. Holders of approximately 200,000 shares have agreed to waive their preemptive rights. The underwriter will receive 50,000 five-year warrants to purchase common stock at a price to be filed by amendment. For these warrants the underwriter will pay the company 10 cents each or a total of $5,000. **Underwriters**—Principal underwriter is Allen & Co.

Hayes Manufacturing Corp.

on Feb. 27 filed a registration statement for 215,000 shares of common stock ($2 par). Shares are being sold by certain stockholders. For details see issue of March 7. **Offering**—Price to the public will be filed by amendment. **Underwriters**—Laird, Bissell & Meeds.

Hein-Werner Motor Parts Corp.

on March 1 filed a registration statement for 40,000 shares of common (par $3). For details see issue of March 7. **Offering**—Shares are being offered to holders of common stock at rate of one share of new common for each 2½ shares held on March 8 at $15 per share. Unsubscribed stock will be sold to public by underwriters at $15 per share. **Underwriters**—The Wisconsin Co. heads the underwriting group.

Hood Chemical Co., Inc.

on Feb. 26 filed a registration statement for 205,000 shares of common stock (par 33c). For details see issue of Feb. 27. **Offering**—Price to public $5 per share. **Underwriters**—No underwriters. Company is undertaking to distribute its common stock directly to the public.

Illinois Power Co.

on Feb. 27 filed a registration statement for $45,000,000 first mortgage bonds due 1976 and $9,000,000 sinking fund debentures due 1966. Securities will be offered for sale at competitive bidding with price and interest rates to be named by the successful bidder. For details see issue of March 7. **Underwriters**—Names will be filed by amendment.

Indianapolis Power & Light Co.

on March 8 filed a registration statement for 142,967 shares of common stock (no par). For details see issue of March 14. **Offering**—Company is offering the stock to holders of common stock at a price to be filed by amendment at rate of one share of new common for each five shares held. **Underwriters**—Underwriting group is headed by Lehman Brothers, Goldman, Sachs & Co. and The First Boston Corp.

Jefferson-Travis Corp.

on Feb. 27 filed a registration statement for 30,000 shares of $1.25 cumulative convertible preferred (no par) and 130,000 shares of common (par 25c). Common shares are reserved for conversion of preferred. For details see issue of March 7. **Offering**—Price to public is $25 per share. **Underwriters**—Richard J. Buck & Co.

Kerr-McGee Oil Industries, Inc.

on Feb. 28 filed a registration statement for 60,000 shares of $1.20 cumulative convertible preferred stock ($22.50 par). For details see issue of March 7. **Offering**—Price to public is $25 per share. **Underwriters**—Straus & Blosser, Chicago.

R. G. LeTourneau, Inc.

on March 7 filed a registration statement for 50,000 shares of $4 cumulative preferred stock (no par). For details see issue of March 14. **Offering**—Price to public will be filed by amendment. **Underwriters**—Underwriting group includes Alex. Brown & Sons, Dean Witter & Co., F. S. Moseley & Co., Kebbon, McCormick & Co. and Shields & Co.

Linn Coach & Truck Corp.
(Formerly Oneonta Linn Corp.)

on Feb. 28 filed a registration statement for 250,000 shares of common (par 10c). For details see issue of March 7. **Offering**—Price to public is $3 per share. **Underwriters**—Bond & Goodwin, Inc.

Mission Appliance Corp.

on Feb. 26 filed a registration statement for 133,000 shares of common stock (par $5). Of total 102,150 shares are being sold by company and 30,850 by certain stockholders. For details see issue of March 7. **Offering**—Price to public will be $8.25 per share. **Underwriters**—Lester & Co., Los Angeles, Calif.

Morris Plan Corp. of America

on Jan. 29 filed a registration statement for 100,000 shares of preferred stock, series A, with common stock purchase warrants attached (par $1) and 150,000 shares of common (10c par). Dividend rate on preferred will be filed by amendment. The statement covers 200,000 additional shares of common reserved against warrants. For details see issue of Feb. 7. **Offering**—Price to the public will be filed by amendment. **Underwriters**—To be supplied by amendment.

National Distillers Products Corp.

on Feb. 4 filed a registration statement for 379,894 shares of common stock (no par). For details see issue of Feb. 7. **Offering**—Stock is being offered by the company for subscription to the holders of its common stock of record March 20 pro rata, at the rate of one-sixth of one share for each share held at $62 per share. Rights expire at 3 p.m. April 8. Unsubscribed shares will be offered to the public by underwriters. **Underwriters**—Glore, Forgan & Co. and Harriman Ripley & Co., Inc.

Oklahoma Gas & Electric Co.

on Feb. 7 filed a registration statement on 675,000 shares of 4% cumulative preferred stock (par $20). For details see issue of Feb. 14. **Offering**—Company intends to call for redemption its outstanding 146,478 shares of 7% cumulative preferred stock (par $100). The old preferred is redeemable at $125 per share plus dividends. Company is granting to such holders the right to receive the redemption price of their shares of old preferred by the delivery of six shares of 4% new preferred for each share of old preferred. As the amount of new preferred will be limited to 675,000 shares, the right is limited to holders of old preferred who first deposit an aggregate of 112,500 shares (76.8%) of the old preferred. The holders of the remaining 33,978 shares (23.2%) of old preferred will be required to take the redemption price of their shares in cash. **Dealer-Manager**—Merrill Lynch, Pierce, Fenner & Beane.

Pacific Airmotive Corp.

on Feb. 28 filed a registration statement for 150,000 shares of capital stock (par $1). For details see issue of March 7. **Offering**—Company offers to stockholders the right to subscribe for 150,000 shares on basis of three-tenths of one share for each share of stock held at price to be filed by amendment. Union Oil Co. of California, beneficial owner of 212,234 shares (42.45%) of capital stock of Pacific, has agreed to purchase at subscription price all shares of capital stock offered and not subscribed. Union Oil will acquire shares for investment only. **Underwriters**—None mentioned.

Palestine Economic Corp.

on Dec. 28 registered 20,000 shares of common stock ($100 par). For details see issue of Jan. 3. **Offering**—Offering price to public $100 per share. **Underwriting**—No underwriting.

Peerless Casualty Co.

on March 8 filed a registration statement for 50,000 shares of common stock (par $5). For details see issue of March 14. **Offering**—Company is offering the 50,000 shares of common to common stockholders in ratio of 5 additional shares for each 11 shares held, at $14 per share. Unsubscribed shares will be sold to underwriters and sold to public at $14 per share. **Underwriters**—Herrick, Waddell & Co., Inc., New York, heads the underwriting group.

Piper Aircraft Corp.

on Feb. 18 filed a registration statement for 150,000 shares of common stock (par $1). For details see issue of Feb. 20. **Offering**—Price to the public will be filed by amendment. **Underwriters**—Hayden, Stone & Co.

Public Service Co. of New Hampshire

on March 1 filed a registration statement for 102,000 shares of preferred stock ($100 par). Stock is to be offered at competitive bidding, with dividend rate supplied by amendment. For details see issue of March 7. **Offering**—Stock will first be offered to holders of company's $6 and $5 dividend preferred stock on a share for share basis, with cash adjustment. Unexchanged shares of new preferred are to be sold to underwriters for resale to public. All shares of old preferred not exchanged will be called for redemption at $107.50 for the $6 and $105 for the $5 preferred, plus accrued dividends. **Underwriters**—To be filed by amendment.

Scranton-Spring Brook Water Co.

on Feb. 8 filed a registration statement for $23,500,000 first mortgage bonds, due March 15, 1976, and 100,000 shares of cumulative preferred stock (par $100). Interest and dividend rates will be filed by amendment. For details see issue of Feb. 14. **Offering**—Bonds and preferred stock will be sold at competitive bidding. **Underwriters**—Names of underwriters will be filed by amendment.

Sinclair Oil Corp.

on Dec. 26 filed a registration statement for 150,000 shares of common stock (no par). Shares are being sold by H. F. Sinclair. For details see issue of Jan. 3. **Offering**—Price to the public will be based on market estimated at $18 per share. **Underwriters**—Kuhn, Loeb & Co.

Southwestern Public Service Co.

on Feb. 27 filed a registration statement for two classes of cumulative preferred stock, consisting of 65,000 and 50,000 shares, respectively. Dividend rate will be filed by amendment. For details see issue of March 7. **Of-**

fering—An aggregate of only 65,000 shares of both classes of preferred stock are to be issued at this time. Holders of outstanding 4¾% old preferred will be given the opportunity to exchange the old preferred for the new preferred on a share for share basis, with cash adjustment. All shares of old preferred not exchanged will be redeemed. Unexchanged new shares will be offered by the underwriters at price to be filed by amendment. **Underwriters**—Dillon, Read & Co. Inc.

Standard Factors Corp.

on Feb. 27 filed a registration statement for $750,000 4¾% 15-year convertible subordinated debentures, due Dec. 31, 1960, and 22,500 shares of common stock (par $1). For details see issue of March 7. **Offering**—Debentures and common stock are offered in units, consisting of one $1,000 debenture and 30 shares of common stock, at $1,050 per unit. **Underwriters**—Sills, Minton & Co., Inc.

Textron, Inc.

on Dec. 28 filed a registration statement for 300,000 shares of 5% convertible preferred stock (par $25). For details see issue of Jan. 3. **Offering**—Price to public will be filed by amendment. **Underwriting**—To be filed by amendment.

Thompson Products, Inc.

on March 8 filed a registration statement for 40,000 shares 4% cumulative preferred stock ($100 par) and 75,000 shares of common stock (no par). For details see issue of March 14. **Offering**—The offering prices to public will be filed by amendment. **Underwriters**—Underwriting group is headed by Smith, Barney & Co., McDonald & Co. and Shields & Co.

Union Wire Rope Corp.

on Feb. 4 filed a registration statement for 42,000 shares capital stock, (no par). For details see issue of Feb. 7. **Offering**—Company will offer the 42,000 shares for a period of two weeks after the effective date of registration for sale to stockholders at $15.50 per share. Shares not purchased by the stockholders will be offered by underwriter at $15.50 per share. **Underwriters**—P. W. Brooks & Co., Inc., New York.

United States Radiator Corp.

on Jan. 29 filed a registration statement for 92,344 shares of common stock, par $1. For details see issue of Feb. 7. **Offering**—Company has granted to holders of common stock rights to subscribe for not exceeding 92,344 shares of common at $11 per share at rate of one new share for each 2½ shares held. Unsubscribed shares will be purchased by underwriters and offered to the public at a price to be filed by amendment. **Underwriters**—White Weld & Co. named principal underwriter.

Virginia Red Lake Mines, Ltd.

on June 24 filed a registration statement for 220,000 shares of capital stock, par $1 (Canadian). For details see issue of Aug. 2. **Offering**—Offering price to public 28 cents United States funds. **Underwriters**—Willis E. Burnside & Co., New York.

Wilson Brothers

on March 8 filed a registration statement for 60,000 shares 5% cumulative preferred stock ($25 par) with non-detachable warrants, and 120,000 shares of common ($1 par). Of the total shares covered, 13,266 preferred and 20,000 common are being sold by a stockholder. For details see issue of March 14. **Offering**—Price of preferred is $25 per share. Offering price of common will be filed by amendment. **Underwriters**—The underwriting group is headed by Hemphill, Noyes & Co.

Yank Yellowknife Gold Mines, Ltd.

on Feb. 13 filed a registration statement for 1,000,000 shares of common stock, par $1. For details see issue of Feb. 20. **Offering**—Offering price to public is 30 cents per share, United States funds. **Underwriters**—J. J. Carrick, Ltd., Toronto, Canada.

Young Radiator Co.

on Jan. 29 filed a registration statement for 100,000 shares of common stock (par $1). Company is also registering 40,000 shares of common reserved for issuance upon exercise of warrants. For details see issue of Feb. 7. **Offering**—Price to public is $8.25 per share. Of 40,000 warrants to purchase common stock at $8.25 per share prior to Feb. 1, 1951, 20,000 were issued to stockholders on recapitalization and 20,000 are being sold to underwriters at 10 cents per warrant share. **Underwriters**—Van Alsyne, Noel & Co.

Contests NAM Views on Inflation

(Continued from page 1632)

accounts when the Treasury balance is disbursed. Also, it excludes holdings of liquid assets by non-profit associations, State and local governments and certain other groups. A more inclusive figure (still excluding holdings by Government trust funds, commercial banks, savings banks, and insurance companies) for December 1945 approaches $275 billion.

(3) In reducing the $145 billion of personal holdings to $17 billion, Mr. Wason first excludes all items other than currency and demand deposits held by individuals—that is, he excludes holdings of all types by trust funds ($16 billion) as well as all time deposits ($45 billion) and U. S. security holdings ($41 billion) of individuals. Thus, he reduces the total from $145 to $43 billion. While there is justification for arguing that liquid assets held in the form of currency or demand deposits are more likely to be spent than those held in the form of time deposits or as investments in U. S. Government securities, this difference is one of degree only. Certainly, it is not justifiable to exclude altogether the $86 billion of time deposits and U. S. security holdings by individuals. Should investors be given reason to fear that the purchasing value of their investments might dwindle away due to price increases, securities would be offered for sale on a large scale. In protecting the Government security market the banking system would have to stand ready to absorb these securities and in the process they would be transformed into cash and demand deposits, which would then be available for expenditure.

(4) Taking the $43 billion of currency and demand deposits held by individuals, Mr. Wason argues that the amount held in 1939, or $11 billion, should be deducted and only the increase of $32 billion be considered. Some adjustment of this kind is not unreasonable. Individuals and businesses may be expected to draw more readily upon recent additions to their liquid assets than to reduce their holdings below a level to which they have been accustomed for some time. Yet, it does not follow that, therefore, the entire amount of prewar holdings cannot be drawn on under any circumstances. That depends on people's expectations as to price developments.

(5) Next, Mr. Wason points out that personal incomes have about doubled since 1939 and concludes that people may hence be expected to carry approximately twice the amount of their prewar holdings of liquid assets. educting another $15 billion on these grounds, he arrives at a total of about $17 billion. Again, Mr. Wason much overshoots the mark.

When considering the increased volume of liquid assets, some allowance can properly be made for the simultaneous expansion in the level of output and income. Some increase in the level of liquid asset holdings is to be expected. However, the sharp increase in liquid assets relative to the level of national income that has occurred (see table) far exceeds a reasonable allowance for this factor under present conditions, when a large part of the gross national product is not yet available to civilian purchasers and production is not yet adjusted to demand. Thus, liquid assets held by businesses and individuals were 60% of gross national product in 1941; for the end of 1945 the same percentage is estimated at 124%. Taking demand and currency alone, the increase is from 30 to 48%. Taking U. S. security holdings, the increase is from 12 to 50%. These are large increases and should not be dismissed as merely the result of higher levels of income and production.

LIQUID ASSET HOLDINGS AND GROSS NATIONAL PRODUCT
(In Billion Dollars)

Calendar Year—	GNP	†Liquid Assets Held by —Individuals and Businesses— Total	Demand Deposits and Curr.	Time Deposits	U. S. Govt. Sec.	——As Percentage of GNP—— Total	Demand Deposits and Curr.	Time Deposits	U. S. Govt. Sec.
‡1945	182.0	225.3	87.4	48.2	89.7	123.8	48.0	26.5	49.3
1944	198.7	169.7	67.8	35.0	66.9	85.4	34.1	17.6	33.7
1943	187.8	136.9	57.6	29.6	43.7	69.7	30.7	15.8	23.3
1942	151.5	90.3	41.1	26.5	22.7	59.6	27.1	17.5	15.0
1941	120.5	74.2	33.9	27.1	13.2	61.6	28.1	22.5	11.0
1940	97.1	67.6	28.9	26.7	12.0	69.6	29.8	27.5	12.4
1932	55.4	51.0	17.1	24.8	9.1	92.1	30.9	44.8	16.4
1929	99.4	60.7	22.1	28.6	10.0	61.1	22.2	28.8	10.1
1921	70.7	52.9	17.5	16.6	13.8	74.8	24.8	23.5	26.6

†Holdings as of June 30. Commercial banks, savings banks and insurance companies are excluded.

‡GNP is tentatively estimated annual rate for end of year and liquid asset figures are for Dec. 31.

For further details see Federal Reserve Bulletin for February, 1946, p. 122.

Mr. Wason's Interpretation

Even if Mr. Wason's residual of $17 billion were accepted, there would be no reason for complacency. It is still twice the corresponding 1939 figure and sufficient, if expended rapidly, to touch off inflation. An analysis of the liquid asset figures in itself does not mean much unless it is related to the abnormal economic situation with which we are confronted at this time when, as a result of the war, demand is far in excess of supply. It is obvious that in urban and farm real estate, in security markets and in other areas not subject to price controls, prices have sharply advanced.

Because of the abnormality of the present situation, a sharp distinction must be drawn between the economic significance of these liquid assets in the current setting and their likely effect later on when the economy has returned to a more normal situation. At such a time the liquid assets may well be helpful in maintaining adequate demand and high employment. In the present situation, if expended prematurely, they would have disastrous inflationary consequences.

It is true, of course, that inflation is caused not by the existence of liquid assets but by their use to bid up prices. It is difficult to say to what extent they have been thus used to date, but it is a fact that there has been a sharp reduction in the rate of saving. Personal savings as a percentage of disposable income which had reached 30% in the second quarter of 1945 are now less than 20% and may decline still further in the course of the year. This tendency should not be accelerated by raising expectations that those who do not buy now will have to pay higher prices later on. Such a development would be invited by a weakening of OPA controls.

Mr. Wason is correct in pointing out that the use of liquid assets for purchases does not of itself reduce the total volume of such assets. If individuals or businesses draw on their liquid assets to finance purchases, the result is merely a shift of funds from the buyer to the seller. The volume of liquid assets can be reduced only to the extent that Government debt is paid off out of tax receipts or securities are sold by commercial banks to nonbank investors. Mr. Wason is therefore right in emphasizing the need for a balanced budget and contending that liquid assets cannot be absorbed by increased production.

It does not follow, however, that because large liquid assets will continue to exist, it will also be necessary to retain OPA price controls indefinitely. Inflationary pressures at this time result from the fact that there are large backlog as well as current demands while the supply of goods in many lines is inadequate and cannot become adequate in a few months because production and distribution in sufficient volume take time. Once goods become available in ample supply to satisfy current demand and the most urgent backlog demand has been met, the excessive pressures from buyers will be reduced and at the same time competition among sellers will be increased. When this happens, price controls can be removed safely even though liquid asset holdings remain large.

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DIVIDEND NOTICES

UNITED STATES SMELTING REFINING AND MINING COMPANY

The Directors have declared a quarterly dividend of 1¾% (87½ cents per share) on the Preferred Capital Stock payable on April 15, 1946 to stockholders of record at the close of business March 29, 1946. No dividend was declared on the Common Stock.

FRANCIS FISKE, *Treasurer.*

March 20, 1946

DIVIDEND NOTICES

a.c.f.

AMERICAN CAR AND FOUNDRY COMPANY

30 Church Street
New York 8, N. Y.

There has been declared, out of the earnings of the fiscal year now current, a dividend of one and three-quarters per cent (1¾%) on the preferred capital stock of this Company, payable April 8, 1946 to the holders of record of said stock at the close of business April 1, 1946.

Transfer books will not be closed. Checks will be mailed by Guaranty Trust Company of New York.

Charles J. Hardy, *Chairman*
Howard C. Wick, *Secretary*

March 21, 1946

LEE RUBBER & TIRE CORPORATION

REPUBLIC RUBBER
INDUSTRIAL RUBBER PRODUCTS
Youngstown, Ohio

LEE TIRE & RUBBER CO. of N. Y., Inc.
TIRES, TUBES & SUNDRIES
Conshohocken, Pa.

The Board of Directors has this day declared the regular quarterly dividend of 50c per share on the outstanding capital stock of the Corporation payable May 1, 1946, to stockholders of record at the close of business April 15, 1946. Books will not be closed.

A. S. POUCHOT
Treasurer

March 27, 1946

THE SUPERHEATER COMPANY
Dividend No. 164

A quarterly dividend of twenty-five cents (25c) per share on all the outstanding stock of the Company has been declared payable April 15, 1946 to stockholders of record at the close of business April 5, 1946.

M. SCHILLER, Treasurer.

Universal Pictures Company, Inc.

DIVIDEND

The Board of Directors has declared a quarterly dividend of 50c per share on the outstanding common stock of the Company, payable April 30, 1946 to stockholders of record at the close of business on April 15, 1946.

UNITED GAS CORPORATION
Common Stock Dividend

At a meeting of the Board of Directors of United Gas Corporation held March 27, 1946, a dividend of twenty cents (20c) per share on the Common Stock of the corporation was declared for payment April 30, 1946, to stockholders of record at the close of business on April 10, 1946. The directors have not established a fixed annual dividend rate on such Common Stock.

J. H. MIRACLE, Secretary.

Broker-Dealer Personnel Items

(Special to THE FINANCIAL CHRONICLE)

DAVENPORT, IOWA—**John M. Beyer** has rejoined the staff of **Quail & Co.**, Davenport Bank Building, after serving in the U. S. Navy.

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH.—**Russell A. Thomson** has become a affiliated with **C. G. McDonald & Company**, Guardian Building. Mr. Thomas was previously with the War Department.

(Special to THE FINANCIAL CHRONICLE)

GRAND RAPIDS, Mich.—**John D. MacNaughton, Jr.**, has become associated with **MacNaughton-Greenawalt & Co.**, Michigan Trust Building. He was formerly in the U. S. Army.

(Special to THE FINANCIAL CHRONICLE)

INDIANAPOLIS, IND.—**Woodrow C. Moyer** is with **Merrill Lynch, Pierce, Fenner & Beane**, Circle Tower.

(Special to THE FINANCIAL CHRONICLE)

INDIANAPOLIS, IND.—**Lewis B. Shultz** is with **Ferd A. Meyer, 8** East Market Street.

(Special to THE FINANCIAL CHRONICLE)

INDIANAPOLIS, IND.—**Will J. Goodwin** has been added to the staff of **Slayton & Co., Inc.**, Circle Tower.

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—**Bernard A. Burton** has been added to the staff of **Slayton & Co., Inc.**, 111 North Fourth Street, St. Louis, Mo.

(Special to THE FINANCIAL CHRONICLE)

LAKELAND, FLA.—**Walter M. Ruby** is with **Cohu & Torrey**, Polk Theatre Building.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—**Russell J. Hendrickson** is with **G. Brashears & Co.**, 510 South Spring Street.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—**Howard D. Hotchkiss** has been added to the staff of **Buckley Brothers**, 530 West Sixth Street.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—**Roy F. Holcomb** has become affiliated with **Edgerton, Wykoff & Co.**, 621 South Spring Street.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—**Max W. Schlutsmeyer** is with **Maxwell, Marshall & Co.**, 647 South Spring Street.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—**Ted C. Willson** is connected with **Mitchum, Tully & Co.**, 650 South Spring Street.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—**Eugene L. Gackle** and **Edwin C. Kahn** are with **Slayton & Company, Inc.**

(Special to THE FINANCIAL CHRONICLE)

MACON, GA.—**Lowell H. Barker** is with **Brown and Groover**, Bankers Insurance Building. He was formerly in the U. S. Army.

(Special to THE FINANCIAL CHRONICLE)

NEW ORLEANS, LA.—Dorothy **R. Henderson** and **J. Thomas Whalen** are with **Weil & Co.**, Richards Building.

(Special to THE FINANCIAL CHRONICLE)

ORLANDO, FLA.—**Mrs. Ada M. Hamilton** is with **Southeastern Securities Corp.**, 304 West Adams Street, Jacksonville, Fla.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—**Lee E. Barnes** has been added to the staff of **Witherspoon & Company, Inc.**, 215 West Seventh Street.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—**L. G. Halverson** is with **Dean Witter & Co.**, 634 South Spring Street.

(Special to THE FINANCIAL CHRONICLE)

OAKLAND, CALIF.—**John W. Hann** is connected with **Mason Brothers**, Central Bank Building.

(Special to THE FINANCIAL CHRONICLE)

OAKLAND, CALIF. — **Richard T. Hamilton** has rejoined the staff of **Stephenson, Leydecker & Co.**, 1404 Franklin Street.

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The COMMERCIAL and FINANCIAL CHRONICLE

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Truman Calls for Unity

In Jackson Day Address, He Urges Democratic Party to Gain People's Support by Continuously Advancing Toward Higher Goals. Says His Administration's Program Is to Make Free Enterprise Work. Hits at "Selfishness" and Warns of Inflationary Danger. Holds New Wage-Price Policy Will Break Bottlenecks in Reconversion. Promises a Balanced Budget.

President Harry S. Truman in the annual Jackson Day Dinner at Washington on March 23, called for support of his party in the program "to make free enterprise work" and asserted that "just plain selfishness" was causing a delay in effecting reconversion of our "gigantic industrial machine from war to peacetime production." He praised the new wage-price policy and predicted "the greatest outpouring of consumer goods that the world has ever seen."

President Truman

The text of the address follows:

Fellow Democrats Everywhere:

Throughout America this evening, we of the Democratic Party are gathered to reaffirm our faith in the ideals of democracy. We are assembled in some three hundred cities and towns to pledge ourselves again to the oldest and most practical principle in the history of men and nations—the democratic ideal in which America was conceived 170 years ago.

A. Wilfred May's column, **"Observations,"** is omittted because of the current meeting of the UNO Security Council in New York City. Mr. May's commentary thereon will be found in Section 1 of today's issue

On this occasion we pay honor to the memory of a great American leader, and a soldier of Democracy—Andrew Jackson.

It was Andrew Jackson who led the good fight for social advancement and political progress against the forces of reaction. As the standard bearer of our Party, Jackson made a living reality of the high democratic doctrines for which men of our nation fought and died—the extension of basic rights to all men. Down through the years, these doctrines have

(Continued on page 1711)

GOP Normalcy Means Chaos: Wallace

Secretary Wallace at Jackson Day Dinner Praises President Truman and Scores Democrats Who "Have Joined a Coalition Against Themselves." Pleads for Unity in Democratic Party and Praises Free Enterprise. Warns of Danger of Republican Majority in Congress.

Secretary of Commerce Henry A. Wallace in a speech which preceded that of the President at the Jackson Day Dinner on March 23 in Washington, expressed particular concern regarding Democratic members of Congress joining a coalition with Republicans and warned that a Republican victory next Fall would have "a gravely disturbing effect on the whole international situation." He characteried Republicans as reactionaries and asserted that the Democratic Party must welcome "every American, white and black, who believes in the rights of man."

Henry A. Wallace

The text of his address follows:

Mr. President and Fellow Democrats:

The plain folks first marched into Washington when Andrew Jackson came to the White House. Ever since, Jackson Day has been the people's day—because Jackson, like Jefferson, stood for people first and property second.

Thomas Jefferson gave the Democratic party its philosophy and spirit—the determination that our democratic system must provide both political and economic freedom. But it was Jackson who was able to make the first great strides in putting that belief into practice.

After Jackson, the Democratic party became fat and lazy. Property became more important than people—and the plain folks looked elsewhere for leadership. Lincoln was put into the White House by the spiritual descendants of Andrew Jackson because he, like Jackson, put people first and property second.

Scores Reactionary Republicans

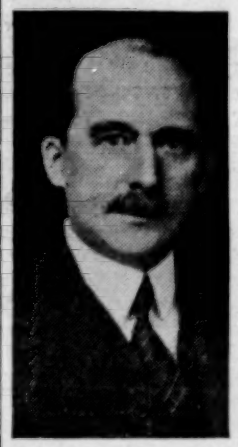
Only one other Republican President followed Jacksonian principles. That man was Theo-

(Continued on page 1710)

OPA Program Dangerous

Brig. Gen. Leonard P. Ayres Says It Means Profit Control, Which Is Dangerous in Peacetime. Urges Amendment of Price Control Act.

In the current issue of the Cleveland Trust Co.'s "Business Bulletin," Brig. Gen. Leonard P. Ayres, Vice - President, severely castigates the economic program of Chester Bowles.



Leonard P. Ayres

General Ayres states in the opening pages of the Bulletin:

It is a highly dangerous economic program that Chester Bowles has been advocating before the Congressional committee that is considering the extension of OPA. It is a wages-prices-profits program, and it proposes to control all three phases of the plan. It intends to continue to foster wage increases, and that is inevitable, both because of announced administration policies and because the increases that have already taken place make numerous other increases unavoidable. It proposes a rigid limitation of price advances, and that part of the program will fail because the wage advances have already committed us to accept price advances if the workers are to get the higher wages and the customers are to purchase the goods.

Peacetime control of profits is a dangerous innovation, and one that ought to be specifically prohibited in any legislation extending OPA. It is proposed to sanction price advances large enough to permit an industry or establish-

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The Financial Situation

For our part, we venture the hope that Democratic leaders currently engaged in an endeavor to bring unity to their party on their own terms will fail. It was the repeated success of Mr. Roosevelt in precisely such efforts that was responsible for the overthrow of the American way of doing things and the substitution therefor of a strange conglomeration of Medievalism and modern Communism usually termed the New Deal.

For essentially the same reasons we find ourselves quite out of sympathy with Republican leaders who would "unite" the party on a sort of "Bull Moose" platform so deeply tinctured with New Dealism that it is often difficult, if not impossible, to tell Democrats from Republicans save by the label or the campaign buttons they wear. Of course, such "unity" in a party among whose influential members we find ex-President Hoover, Senator Taft, Governor Bricker and others of their turn of mind, along with the New Deal-ized Bull Moosers and their fellow travelers, is obviously wholly out of the question except as respects outward appearances for election purposes—as it is also, of course, with a Democratic party which (at the moment anyhow) includes Senator George, Senator Glass, Senator Byrd, and others of their political coloration along with Henry Wallace, Harold Ickes, Sidney Hillman, Senator Wagner, and others of their notions.

"Split" Parties

But there is a good deal more in all this current talk about "unity" than the old, old question of "split" political parties. Many, many years have elapsed since there was full harmony on basic questions in either party, if indeed there ever was such a time. Not for a good many years

(Continued on page 1688)

From Washington Ahead of the News

By CARLISLE BARGERON

There is something happening in this country today, to speak ponderously, that really has our students of human behavior bewildered. We are experiencing increasing radicalism in the presence of boom times. You look back through the tomes of history and it is difficult to find anything like this. Certainly, without going back into those tomes, it is the first time this correspondent of more than 20 years experience with the Washington scene has seen such a situation. We have discussed it with many of our colleagues, with high Government officials, and the fellows in Congress who make their living by keeping their ears close to the ground. It has got the latter two groups upset, to say the least. It is making its impression on Mr. Truman's councils.

Carlisle Bargeron

Our history has been that there was nothing more impoverished, or more of a human curiosity, than a soap box orator in good times. In such times Henry Wallace would have been a freak such as the late P. T. Barnum might have exhibited. In depression times the agitators went to town. There was a tremendous demand for their quack medicine. They lived at the best hotels, enjoyed the pick of the ballet dancers and the other cream of life.

But come good times and grease spots appeared on their vests and patches in their pants. The record is that our labor unions have had more members in depression times than in good ones, that their membership fell off when the stress of living was relieved.

That is not now the situation, and it is a thought for thinking people. According to our economists, and it is something that Chester Bowles and John W. Snyder agree upon, our production is at the highest point in history. It is not apparent be-

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Postwar Taxation and Economic Progress

By HAROLD GROVES*
Professor of Economics, University of Wisconsin

Viewing the Problems of Adjusting Taxes to Postwar Conditions, Dr. Groves Lists, Among Others, the Following Taxation Objectives: (1) Taxes Should Be Fair and Progressive; (2) They Should Reduce Inequalities in Wealth, Income and Power; (3) They Should Conserve Human Resources; (4) They Should Preserve a Wide Market; (5) They Should Preserve Incentives; (6) They Should Be Direct as Feasible and Widely Shared; and (7) They Should Be Administerd to Mitigate and Not Aggravate Business Instability. Defends Deficit Financing in Depressions, and Advocates Retention of Personal Income Taxes With a Broadened Base and Substantial Graduation. Holds Capital Gains Should Be Taxed Like Other Incomes.

The postwar fiscal problem will involve public expenditures, public debts, and taxes. As to public expenditures, total outlay in the years just preceding the war was around nine billion dollars. This included military expenditures in the neighborhood of one billion dollars. What we will need for protection in the postwar period is variously estimated at from three to ten billion dollars. Much will depend upon the peace and our postwar international relations. The principal further item with which to contend in the postwar period will be interest on public debt, which might run to six billion dollars without retirement of principal. This says nothing about expansion of social security and outlays for veterans. One might hope that most prewar outlays for public works and for agriculture need not be continued.

Harold M. Groves

There are several attitudes toward the public debt. One view holds it to be a minor concern because we owe it to ourselves (it is true, of course, that an internal debt is less cause for worry than an external one, but even the former may involve a strain upon the tax mechanism which is called upon to transfer large quantities of wealth from taxpayers to bond holders). It is even argued that the debt may be extended with equanimity. Further indebtedness will not increase prices, it is said, as long as there is unemployment; and if the debt service becomes too onerous, the debt can be monetized (non-interest-bearing notes

*An address by Dr. Groves at the University of Pittsburgh, March, 1946.

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Protests Mr. Bowles' Tactics

Correspondent Points Out One-Sidedness Attitude of Stabilization Director. Says He Condemns and Villifies Certain Pressure Groups While Favoring and Following the Dictates of Others.

Editor, Commercial and Financial Chronicle:

In your issue of March 14 you published in full an address delivered by Chester Bowles, Director of the Office of Economic Stabilization, before the annual convention of the National Farmers Union at Topeka, Kansas. The first of the address was devoted to an explanation of the problems faced by the country in the transition from a war to a peace economy.

He stated that control of production was dropped too soon after peace with Japan was declared. It is his thought that controls should not have been dropped before June of 1947. In the next few weeks he claims Congress must decide whether we will move forward in the fight to maintain a stabilized economy or not. It was at this point in his address that I think he showed his unfitness for the office he holds. In place of a cool and intelligent discussion of the position of those opposed to his views and plans he stated: "On the one side we have all the millions of inarticulate little people who have made our country great in the past and on whom its future depends. . . . Opposed to them are some of the most irresponsible, reckless, greedy organizations in America." He named the National Association of Manufacturers and the National Dry Goods Association. Thousands of the small business men group belong to both.

In the past it has been considered fair and just to hear both sides of a question and not for a public servant to resort to villification and abuse of those who happen to disagree with him. When these citizens, along with the real estate men and packers, tried to present their views and opinions they were met with the cry of "phony propaganda" and charged with maintaining a lobby. When addressing the farmers did he charge them with the same offense? It has been stated many times that the farmers organizations have the largest, most expensive and most powerful lobby in Washington but that seems all right with Mr. Bowles.

Why does not Mr. Bowles come out openly, honestly and fairly and tell the people why one lobby is a blessing and another a curse? Does he not forget that those organizations which he damns are composed of many of what he calls "little people"? Does he not also forget that it is estimated we have thirty million of people in this country who own stocks or bonds, life insurance, homes or real estate? These people depend in whole, or part, upon the securities of the very corporations he damns.

Not satisfied with the charges already made he adds another by accusing all of these "little people" with favoring inflation. I deny that charge flatly. There is not a handful of thinking people in the country who favor inflation. It was a statement made for votes only as was much of the last of his speech; pure political hokum. Before the farmers he defends subsidies paid to them but says nothing about the workers and city people who in the end must pay the additional costs.

He charges that lobbies and pressure groups are endangering our democracy. Are you speaking of the C.I.O.-P.A.C. and the Farmers Union Mr. Bowles? If he does not believe in our system of private enterprise why does he not honestly, openly and frankly say as much? If he favors some system based on socialism or communism why not say as much? His speech was a masterpiece if it was made with the idea of creating class hatred and dissension among our people. These men he defames are the same ones who were so highly praised a few months ago for their efforts to help win the war. Then we all thought we were fighting for a free and democratic country in which all men would be treated alike and in which all would have the right to petition their government without the answer being abuse and villification. Is it right for one group of citizens to petition our government and wrong for another?

S. CRAIG LITTLE
Spartanburg, S. C.
March 20, 1946.

Fairchild Retail Price Index Unchanged in February

The Fairchild Publications Retail Price Index remained unchanged at 113.5 (Jan. 3, 1931-100), on March 1. Only changes in the major components of the Index were a decline of 0.1 point for women's apparel and a gain of 0.1 point for infants' wear and children's wear.

The advices state that the decrease in the women's apparel component was due entirely to a decline in aprons and housedresses. The index for these items droped from 138.9 as of Feb. 1 to 138.6. This compares with an Index of 139.1 at the beginning of the year and 140.5 as of March 1, 1945. It is added that this price decline in aprons and housedress department is explained by Government regulations and pretickeeting of merchandise in this field.

The Fairchild report issued on March 16 continued:

The price advance reported for infants' and children's wear was caused entirely by a gain in shoes. The Index increased from 106.2 last month to 106.5. This compares with an Index of 106.0 as of March 1, 1945.

As a measure of the advance from the low point of 1939-40 the Composite Index shows a gain of 27.7%. Chief categories rising more than the average have been piece goods, women's apparel and home furnishings. Men's apparel and infants' wear have shown increases smaller than the average.

The combined index shows a gain of only 0.1% above March 1, 1945. This change reflects decreases for piece goods, men's clothing and home furnishings and a gain for infants' wear. Among the individual items furs show the largest increase, one of 2.6% while women's underwear shows a decrease of 0.8 and infants' underwear one of 0.5%.

In comparison with earlier periods the March 1 Index was 17.5% above the high point reached in 1937. It was 29.1% above the low of 1936. As compared with the depression low, which was reached May 1, 1943, the gain is 63.5%.

Although the new wage price policy will result in a further rise for Wholesale prices, this will not be fully reflected in retail prices unless OPA is greatly weakened or eliminated altogether. According to A. W. Zelomek, Economist, under whose supervision the Index is prepared, OPA officials will make strong efforts to precent further increases in living costs and retail prices, even though a liberal policy is adopted for manufacturers. However, the outcome of this effort depends greatly on whatever action Congress may take in the next month or two.

The State of Trade

Much the same factors were present last week as in previous weeks preventing industrial production from making the necessary progress toward bringing the supply within the bounds of prevailing demand. Notwithstanding shortages of many raw materials, overall industrial output did manage to show some slight increase again the past week. With an increase in payrolls and more employees absorbed in the labor force, unemployment compensation claims reflected a decline of 9.3% during the week ending March 9.

In the carpet industry some increase was noted in output, but labor shortages worked to limit expansion. In the case of the leather industry operators were confined closely to previously prepared schedules with depleted inventories and high demand continuing to aggravate the appearance of current shortages. There was some increase during the week in output of yarn, but some spinners were rejecting new orders. Production of woolen and worsted cloth also rose last week with many mills limiting output to lightweight fabrics. In the automotive industry estimates the past week revealed that before the end of 1946 the automobile price level will rise from 15 to 30%, according to "American Machinist," trade authority. The paper adds that it will not reach the 1929 level, but it will be far beyond the 1942 price list. Companies such as Chrysler, Ford and Hudson have been notified that they will get price increases for their 1946 models but the amount of the increase has not been determined. The industry at present is looking forward to greatly stepped up production starting in June.

In the meanwhile industry is clamoring for the lifting of all controls on production as the most effective way of restoring a more normal economy to the nation.

Speaking on behalf of the National Lumber Manufacturers Association, Richard A. Colgon, Jr., told the House Banking Committee:

"The dilatory, unrealistic, inconsistent and almost confiscatory methods of the OPA in the pricing of lumber are the major cause of the large and tragic decline in the production of lumber." Expressions in a similar vein were being uttered by other industries pointing out that further continuation of price control was proving inimical to the best interests of industry and the general public. The Office of Price Administration expires on June 30 of the present year if it is not extended by the Congress beyond that date.

While many economists and business men have expressed their disapproval of the proposed extension of OPA, Bernard M. Baruch, in a statement before the House Banking and Currency Committee on Monday last, took an opposite stand on this issue. Scoring the Administration's wage policy and some features of the reconversion program, he appealed to Congress to continue price controls for another year, but at the same time asserted, that above everything it was necessary to increase production. He further stated that the government should "stop increasing the money supply, stop decreasing taxes until the budget is balanced, stop bunking the public by saying wage increases can be granted without increase in price levels, do not fear to increase prices or wages where necessary to get and stimulate production." Continuing, he added, "allow profit but no profiteering, avoid favoritism to any particular group, take care of those between the millstones—clerks, Government employees, pensioners, et al."

Steel Industry—With major industrial strikes over or in the final stages of negotiations, steel consumers the past week were in a mad scramble to be placed on mill order books for tonnages regardless of delivery promises, states the "Iron Age," national metalworking paper, in its current survey of the steel trade. Order books are loaded already and backlogs are sufficient to represent several months, production at high levels but this has had little effect in keeping customers from putting pressure on steel firms, according to the magazine.

Some current factors point to a rapid acceleration in steel output after the coal controversy is out of the way. It is more than probable that the operating rate at that time will go beyond 90% of operations and might reach 95% for an extended period. Major reasons for this optimism, the above trade authority notes, are based on the equipment and manpower outlook.

The combination of an easier manpower situation, a shorter week and one of the greatest wage increases in steel history is expected to bring about a sharp change for the better in productivity. Equipment is now in much better shape because of an intensive repair and rehabilitation program. The steel industry is now on the threshold of a period which will see not only high operating rates but continuous ones over long periods and if this movement is held back by the coal strike or slowed up it will nevertheless pick up momentum at a later date, the magazine points out.

The coal strike outlook the past week remained serious and there was nothing to indicate that the country would not face a mine shutdown. The calm and orderly beginning of the negotiations between coal operators and the United Mine Workers covers up a considerable number of explosive demands and counter-demands. However, within the past two weeks some steel companies have been able to show slightly better supplies of coal and in a number of instances stockpiles will support the current operating rates for at least four weeks. There is still a large segment of the steel industry, however, which would be sharply affected if the coal strike should last three weeks. There also remains a necessity for slowing down operations in anticipation of a long shutdown at the mines, the "Iron Age" observes.

Steel companies and their customers are closely watching the latest moves towards the possible allocations or directives on steel for foreign shipment. Last fall a plan was set up calling for enforced allocation of 840,000 tons of steel for export to various countries. This plan never got underway and was seriously affected by the steel strike. It is now understood, according to the magazine, that the Department of Commerce is trying to convince the Civilian Production Administration that a new export allocation program is necessary.

The new program, which is by no means settled, involves close to 1,000,000 tons of steel products to be allocated for export over the next nine months. Resistance to this plan is based on the fact that steel firms already are shipping steel abroad using as a pattern the distribution in the prewar years. It is argued that this process makes unnecessary actual allocations by governmental agencies and at the same time presents a fair policy whereby domestic customers are not discriminated against by unusually high exports.

The American Iron and Steel Institute announced on Monday of this week the operating rate of

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The Anglo-American Loan and U. S. International Policy

By FRED M. VINSON*
Secretary of the Treasury

Maintaining That the Proposed Loan to Britain Is an Essential and Integral Part of Our Program of International Economic Cooperation, Secretary Vinson Points Out the Importance of an Expanded and Unhampered World Trade to Our Economy. Cites the British Problem as Peculiar and Calls Attention to the Adverse Effects to U. S. of a Continuation of the Sterling Area and Blocked Sterling Dollar Pool. Holds Conflicting Economic Blocs Will Be Established if Great Britain Is Not Aided, and Denies Loan Will Furnish Precedent for Similar Grants to Other Nations. Contends Loan Could Not Take Form of Special Bond Issue and Refutes Assertion It Will Be Inflationary.

This morning we are concerned particularly with our international economic program. In my judgment, the best milestone we have seen on the road to peace and prosperity is our international economic program. This program is well developed and we can soon put it into full effect. But if this program is to succeed it is necessary to have the full participation of England. That is why the President stated in his message "that the next order of international business before the Congress should be our financial relations with the United Kingdom." The purpose of the Financial Agreement with England, which is now before you, is to make it possible to put this program into immediate operation.

Secretary Vinson

We have based our policy on a simple proposition: conflicts between nations should not be settled by fire and sword; international problems should be solved in the common-sense way. The common-sense way is to deal with them through discussion and agreement, through international cooperation. It is essential, of course, for the United Nations to cooperate on political problems that affect world security. But that is not enough. There must be a sound economic foundation for peace. That foundation can be built only through cooperation among the nations.

Our International Economic Policy

For the past five years this Government has stood for, and has advocated, a definite international economic policy. That

*A statement by Secretary Vinson before the Senate Banking and Currency Committee, March 5, 1946.

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UNRRA Council Meets

The fourth Council meeting of the United Nations Relief and Rehabilitation Administration opened with a plenary session on Mar. 15, at Atlantic City, N. J., where its retiring Director-General, Herbert H. Lehman, and Representative Sol Bloom (D.-N. Y.) Chairman of the House Foreign Affairs Committee, told the delegates from 47 nations that the organization's relief work would have to be carried on beyond this year, Mr. Bloom had been designated by President Truman and Secretary of State Byrnes to welcome the delegates on behalf of the United States.

Previously, the Associated Press pointed out, it had been believed generally that UNRRA would concentrate its efforts on finding a way to transfer its functions gradually to the United Nations Organization, winding up its own operations in Europe by the end of this year and in Asia by the middle of 1947. Mr. Bloom is reported to have said that he had no idea of the total amount of money which would be necessary to complete the organization's work, but he stated that UNRRA "just can't fold at the end of 1946."

President Truman sent a message to the Council, hailing the work of UNRRA and pledging America's aid in feeding the starving millions in the areas freed from war. Said the President: "I regard UNRRA as the best instrument the United Nations could have to deal with this critical situation, and the emergency measures taken in this country will have as their purpose the further support of UNRRA."

On Mar. 16, at the Council's second session, a report was made by the Combined Food Boards, outlining proposals for distribution through 1946 and 1947 of the world's bread grains. Present supply was stated to be 40% of requirements. It was recommended that exporting and importing countries institute grain conservation measures to assure maximum supply for direct human consumption, with cutting down on feed for livestock. The report stated pessimistically: "Starvation and hunger are inevitable for large groups of populations of Europe and Asia."

The Anglo-American Loan And World Peace

By MARRINER S. ECCLES*
Chairman, Board of Governors, Federal Reserve System

Head of Federal Reserve Tells Senate Banking Committee Proposed Loan to Britain Is Essential to Maintain Economic Stability and World Peace. Sees Economic Warfare With Britain if Loan Is Refused, and Economic Cooperation in World Recovery and Reconstruction, if Loan Is Granted. Belittles Danger of Further Inflation From Loans and Holds It Is Within Britain's Ability to Repay. Denies Advocacy of Foreign Lending to Create Employment or to Increase Exports.

Mr. Chairman, I appreciate this opportunity to appear before this Committee to express my views on the proposed British loan. I learned about the British problem the hard way—by weeks of continuous negotiations in which we thoroughly explored the British situation and every proposal for dealing with it. I should like to summarize my conclusions by offering answers to three questions:

Marriner S. Eccles

1. Why do the British need our help?
2. What would it cost us to give this help?
3. What would we get in return?

First: Why Do the British Need Our Help?

They need it because they have just finished an exhausting war against our common enemies. They need a blood transfusion to help them regain their international economic health. The proposed credit is not and, therefore, should not be judged as a commercial loan. It is more like a draft on a blood bank.

Why has the war left Britain in this anemic state? Because in their extremity the British threw all their resources into the battle without reckoning the cost in terms of where they would be left after victory. Domestically, their economy can be readily converted to peacetime purposes. Internationally, the wartime drains on their resources have reduced them to the point where their only alternatives are to gain recuperative help from us or else to attempt recovery through exploitation of the Empire system.

The British Isles are normally a great workshop. The British people depend for their existence upon large imports of food and raw materials. They need the food to exist. They need the raw materials for manufacture into the goods which they consume

*Statement of Mr. Eccles before the Senate Banking and Currency Committee, March 8, 1946.

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Trade Conditions in Great Britain

By DON C. BLISS, JR.*
United States Commercial Attache in London

U. S. Official Observer Points Out That the British Economy Is Still Operating Under Wartime Restrictions and, Because of Shortages of Equipment, Material and Trained Manpower, Recovery of British Industry Is Severely Handicapped. Says Nation Requires Rehabilitation of Its Capital Equipment, Much of Which Is Obsolete. Sees Need of Heavy Increase in British Exports to Offset Investment Losses Abroad, and Points Out Difficulties in Exporting When Domestic Demand for Goods Is Not Adequately Supplied, Despite Preference Given to Export Production. Holds American Loan Will Be Drawn on Gradually and Will Help in Restoring Anglo-American Trade. Sees Possibilities of American Direct Investment in British Industry.

In most respects London, as I left it at the end of December, presented much the same aspect that it did in 1944, and in fact during most of the war. There is no black-out, but street lighting has not been fully restored. The wreckage created by bombs has been cleared away, but the gaps they left in the skyline have not been filled. There is no longer an absolute prohibition against pleasure-driving of automobiles, but gasoline is still closely rationed. Food is still the perennial problem of the British housewife, the queues before the fish shops are as long as ever, and the only foods unrationed and in relatively plentiful supply are bread and potatoes and cabbages. The clothing situation is even worse than it was in the war years, to such a degree that current supplies are not adequate to meet even the meagre ration of coupons. That ration was established on the assumption that the average citizen possessed a wardrobe, and in war-time would require only replacements. During six years of war his wardrobe is worn out, the ration has actually been reduced in 1946, and the population is distinctly shabby.

Don C. Bliss, Jr.

In short, peace has brought the British citizen no relief as yet from war-time austerity, and his political leaders can promise him little more than a continuation of that austerity until British industry can reconvert fully from war to peace-time production, until foreign trade can revive, and until the British economy can recover from war-time strains.

Reconversion

The reconversion of British industry presents many of the same

*An address by Mr. Bliss before the Commerce and Industry Association of New York, Feb. 27, 1946

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Remittances by Americans Abroad in 1945

During 1945 Americans and foreigners residing in the United States made remittances estimated at more than $300,000,000 (M) to friends and relatives abroad, chiefly in Europe, Latin America and China, and the prospect is that these remittances will increase sharply in the next few years, according to the Department of Commerce. The Department's advices Feb. 26 added:

"The figures so far available are only a preliminary estimate, but a more accurate compilation is now being assembled by the International Payments Unit, Office of Business Economics, under the direction of Hal B. Lary, Chief.

"All of the large banks and other remitting agencies in the country have been requested to provide current information on such payments, Mr. Lary said, and the results will be published by the Department of Commerce on a quarterly basis, beginning in the spring of 1946. Before the war, in 1939, such personal remittances of a non-commercial nature totaled $1444,000,000 (M), but they dropped during the war and hit a low of about $100,000,000 (M) in 1942.

"Since the close of the war there has been a sharp rise, but on the basis of present estimates it is not considered likely that the record payments of $700,000,000 (M) set in 1919 will be equalled," Mr. Lary said.

Monetary Aspects of National Debt Policy

By ROLAND I. ROBINSON*
Division of Research and Statistics, Board of Governors, Federal Reserve System

Reserve Board Analyst, Asserting That Prime Objective of Debt Policy Is Economic Stability, Describes Wartime Monetary Expansion, and Sees Inflationary Potentials in (1) Easy Access of Banks With Large Government Holdings to Reserves; (2) Insecure Non-Bank Ownership of Government Securities; and (3) Policy of Maintaining Interest Rates and Prices of Government Securities Which Virtually Makes Them Equivalent to Money. Advocates (1) Banks Be Required to Invest Proportion of Deposits in Special Non-Marketable Bonds, Redeemable to Meet Deposit Losses Only; (2) Requiring Banks to Hold Additionally Non-Marketable Government Bonds to Cover Increases in Deposits Above a Fixed Base; and (3) Raising Cash Reserve Requirements on Demand Deposits.

The primary objective of postwar management of the public debt must be economic stability, but this in turn, if it is to be achieved, requires monetary stability. The wartime expansion of the Federal debt has already caused a vast increase in money holdings and has weakened the resistance of the economy to further monetary expansion. If large postwar demands for capital outlays and deferred consumption should create the initial conditions of inflation, the money supply, already large, could under present conditions expand further and so prevent the realization of even approximate monetary stability.

There are indeed other objectives of debt management than monetary stability. The budgetary problems of the Federal Government would be simplified by a low debt service charge. Other considerations permitting, it would be desirable to avoid instability in the market value of Government securities. The large debt should not be permitted to create a new or expanded rentier class. But all of these objectives are subsidiary; if conflicts between objectives should emerge, they must be resolved in favor of monetary stability.

Discussion of the effect of the national debt and its management on monetary stability is focused on the long-range possibility of inflation, not because inflation is more likely than deflation, but because it is the powers of the credit authorities to resist further credit expansion that have been impaired by the wartime increase in the Federal debt. Unavoidable inertia toward modifying the debt structure and the overhang of

*Reprinted from "Public Finance and Full Employment" published by the Board of Governors of the Federal Reserve System as "Post War Economic Studies No. 3." Mr. Robinson's opinions are his own, and according to the preface in the pamphlet, do not necessarily represent the opinions of the Board.

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The Financial Situation

(Continued from first page)

has either party been able regularly to act as if there were complete harmony within itself, except perhaps when election campaigns were under way. So diversified is opinion—and group interests—that it may be questioned whether it would be possible to divide the vast majority of voters in this country into two major political parties which would be closely united on all public questions, although doubtless, if feasible in practical life to dissolve the two major parties and reshuffle their elements into two national parties, a larger degree of genuine unity of thought and desire than now exists in the Democratic and Republican parties could be attained.

But all this is an old, old question into which we do not intend at this time to enter. What concerns us at the moment, and what the American people would do well to consider carefully at once, is this notion of "unity" now being so ardently preached in the Democratic party and without question with equal ardor desired or presently will be desired in the Republican party. It seems to us that there is little or no essential difference between this type of "unity" and what the communists and their fellow travelers are fond of terming "solidarity" — and for that matter what the Fascists and the Nazis insisted upon in their party by whatever name they chose to call it. It seems to represent a vast extension of the party caucus idea into what has of late years become known as the "party line."

Dangers to Freedom

There may be grave dangers to one or the other, or possibly both, of the major political parties in failure to develop an effective "party line" and forcing it down the throats of all members in public life or wishing to enter public life, but far more important, there is at least equal danger to all of our free political and other institutions, and even to our individual freedom, in their success in doing so. A consideration of the conditions existing in the Democratic party will well illustrate the point, although any such development and enforcement of a party line as that contemplated, if not actually undertaken, by Democratic leaders at present would hold equal danger in other circumstances.

It has often been said that what is now known as the Democrtic party is not really a political party at all, but rather a group of essentially dissident elements held together by means of a semi-permanent political deal worked out by the master politician who founded and managed the New Deal. In that melange are many of the old "Bull Moosers" who had attracted to themselves a rather motley collection of professional dissidents and trouble makers. Another element in the "party" consists of what used to be termed the "parlor pinks," individuals, mostly "intellectuals," centered about institutions of learning — "little groups of serious thinkers," one satirist used to call them. The influence of such groups as these has resulted in tying to the Democratic party with rather uncertain strings those elements in the population comprising what is usually termed "the independent vote."

Farmers and the Unions

But basically, the feat of the architect of the New Deal consisted of capturing the machinery of the old Democratic party and through it working out and giving effect to a deal with the farmers and the labor unions. Now it is to us quite conceivable that a good deal of honest intellectual common ground can be found among the labor unionists, the "parlor pinks" and the former "Bull Moosers" now associated with the Democratic party. While all these elements are essentially "dissenters," and are much happier when they are condemning or forcing their own pet schemes upon others, their general views are probably closely enough alike to render it possible for them to agree with conviction upon some line of political action.

But we should find it very difficult to believe that such a "line" would of itself meet with much favor from the farmer or from a great many of the groups which constituted the old Democratic party or at least ruled its counsels. Nor do we believe for a moment that it would ever have been possible to attach the so-called "farm vote" to any such political congeries except by the use of large amounts of the coin of the realm. In fine, this strange aggregation which for a dozen years has been known as the Democratic party has been functioning as a going political concern primarily out of considerations of practical politics, not out of basic agreements as to political or social means or ends. Indeed, the interests of farmers, who are essentially entrepreneurs, and the professional union laborer are competitive rather than identical.

Unity on Their Terms

Now the articulate elements which for the past dozen years have been functioning more or less together under the banner of the Democratic party and are now most insistently demanding "unity" are not the agricultural elements, not the labor unions interests, not the old-line Democratic machine groups, but are the "parlor pinks," the old-time "Bull Moosers," and certain professional politicians some of whom are under a sort of spell cast upon them by the "intelligentsia" by which they are surrounded and others of whom have become convinced that this new and strange version of "liberalism" has the public interest and the votes. But their demand is for unquestioning support of their crack-brain program liberally salted with largesse—a program not formulated by the party itself or with full participation of all its elements but by self-appointed party-line manufacturers. This is the way not of democracy but of dictatorship.

The same line of reasoning would apply to many who demand "unity" in the Republican party. What is needed today is not "unity," but careful and understanding study of the requirements of the times.

Non Federal Home Financing Grows

Actual figures from the savings and loan and cooperative bank system as to year-end financial position have brought about an upward revision of the estimated growth of the non-governmental home financing resources of the nation in 1945, and point to still greater adequacy of private credit to finance the drastically needed home building this year. This is the conclusion reached by A. D. Theobald, Chicago, Vice-President-Assistant Manager of the United States Savings and Loan League, statistical clearing house for these home-owner credit institutions since 1892.

"The group of institutions which have so far reported had a gain of 20.9% this past year," said Mr. Theobald. "From this latest detailed information and from observation of other trends we estimate that these institutions as a whole increased their assets by approximately $1,100,000,000 last year and that their total assets reached $8,600,000,000 by Dec. 31, 1945. This means that we are rapidly approaching the former peak in assets which was $8,829,000,000 at the close of 1930." He added:

"An analysis of the statements of the institutions submitted thus far indicates cash and salable government bonds of about 38% which gives some idea of their unprecedented capacity to meet an expanding loan demand from home-owners and home builders in the months and years ahead. The Associations' government bond holdings have reached a peak both in dollar amount and percentagewise, being 32.8% of aggregate assets.

"By contrast at the time of the previous $8,829,000,000 status of these institutions, mortgage loans constituted 88% of their assets, and liquidity was less than a third of what it is, percentagewise, at present. That peak in savings and loan development was reached at the end of the last home building expansion in the nation instead of at the beginning as is now the case."

Scrap the Present Crazy-Quilt Stabilization

By WILLIAM GREEN*

President, American Federation of Labor

Accusing the Government of Making Pledges to Hold the Line and at Same Time Deliberately Creating a Serious Bulge, Mr. Green Expresses Opposition to Establishment of a Regimented Economy. Says President Has Acted on Wrong Advice and Through New Wage-Price Stabilization Policy Has Interfered With Free Collective Bargaining, and Has Put Labor in an "Unescapable Straitjacket." Proposes That (1) "Present Crazy-Quilt Stabilization Program Be Scrapped"; (2) That a New Control Policy Be Adopted With Unequivocal Commitment to End in One Year; and (3) That Government Eliminate Itself From Sphere of Labor-Management Relations.

More than six months have passed since V-J Day. By this time, we should have been well along on the road to postwar recovery. Such is not the case.

William Green

Instead of peace bringing order out of chaos, it has added even worse confusion to our economy. Rapid expansion of industrial production has failed to materialize. Shortages of the necessities of life and housing are daily becoming more acute. Prices are still going up. The forces of inflation are on the march. The Government with one hand solemnly pledges to hold the line and with the other deliberately creates a serious bulge. Federal agencies, instead of eliminating wartime controls, are imposing new and even more baffling regulations. Increases in wage rates obtained by organized labor through collective bargaining are rapidly being wiped out by higher living costs. Congress is in revolt against anything the President recommends.

This is not an exaggerated picture I have drawn. It squares with the harsh facts in every particular. And these facts, added together, represent a threat to the future of the American way of life which the workers of our country dare not ignore.

It is not my purpose here to place the blame for the present unsatisfactory situation on any individual or group. I prefer to point out where our national policies have deviated from the true path and to indicate how we can

*An address by Mr. Green before the annual dinner of the Carbondale Central Labor Union, Carbondale, Pa., March 15, 1946.

(Continued on page 1703)

A Hindrance Not a Help

"Under our Democratic leadership we have set a goal of 2,700,000 new homes by the end of 1947—the greatest home construction program in the history of this or any other country.

"We have proposed legislation for this task. That legislation is now before the Congress. I have strongly urged its prompt enactment. In this connection, there are two proposed amendments to the pending housing measure which also are of vital importance: One to provide premium payments for expanded production of materials, the other to prevent further speculation in existing housing.

"There is constant pressure for an increase in the price of building materials. No one questions that some adjustments—both up and down—are needed, if we are to complete our building program at full speed. But price increases all along the line are clearly out of the question. The price of homes already is too high.

"We must stimulate home building by methods which will not send prices sky-rocketing far beyond the means of the average citizen. That is the reason for premium payments, which would be used to break bottlenecks.

"The price controls we advocate are aimed specifically at halting further inflation in real estate.

* * *

"The veterans returning from battlefronts all over the world deserve the opportunity to obtain homes—and at reasonable prices. They must not become the victims of speculators. I am satisfied that the American people intend to give them a fair break. I am convinced that the veterans' emergency housing program can and will succeed."

—President Truman.

The President seems merely to assume and to expect others to assume the success of this scheme of his, which in actual practice threatens to do as much as, if not more than, the many other impediments to limit or curtail building operations.

Cornerstone of Our Domestic Policy

By HAROLD L. ICKES*
Formerly Secretary of the Interior

Former New Deal Spokesman, in Decrying Clashes Between Management and Labor, Warns That Because of the Monopolistic Power of John L. Lewis, a Coal Strike Will Be Only One in a Series of Industrial Disturbances That Will Shake the Country. Holds We Were Unprepared for Peace, and Because We Cannot Get Together at Home to Settle Domestic Difficulties, We Will Not Be Able to Solve Foreign Problems. Contends We Need Moral Leadership and That the President Can Furnish It, if He Desires, and Pleads for Exercise of the Golden Rule. Says America "Is Sorely Ill" and Requires Immediate Remedies. Pleads for Civilian Control of Atomic Energy and Asserts That Violation of Law Is Condoned by Administration. Concludes We Have Entered a New and Frightening Age.

The first thing that I wish to do tonight is to dispel any notion that you may have that you are about to listen to an expert. I am not an expert.

Harold Ickes

I am not even a bureaucrat any more. Furthermore, I am not an economist. And what is still more strange, particularly in this day and age, I do not pose as either an expert or an economist. I hope that you will let me have my say, just the same.

When I had the pleasure of being your guest on three other occasions I may have spoken with conviction—I sometimes do that—but I am certain that you were far too shrewd not to understand that I was not so sure of the convictions that I expressed as I might have been. Despite what any of you may have heard to the contrary, I always allow a rather large margin for possible personal error. I never pretend to speak with unchallengeable authority. One would be rash to do so in these days when so many pretenses have been torn into shreds; when so many masks have been snatched from grinning skulls.

And so, without any claim to expertness and without whatever prestige a temporary public position might afford, I have again availed myself of the privilege of coming before you, not to expound wisdom or to exude infallibility, but merely to talk to you as one troubled American citizen to others who are probably as disturbed as I am even if you may not be willing to admit it.

I am concerned about the position that America is to occupy in a world that, physically, has become greatly shrunken, and which for us, politically, has suddenly swollen to the size of a planetary system. I am concerned about what is happening or is likely to happen within the four borders of this country that we love. I am concerned because upon these happenings depend not only our own prosperity and well being but the role that we will be able to play on the larger stage of international relations.

I doubt whether anyone has

*An address by Mr. Ickes before the Economic Club of New York on March 13, 1946.

(Continued on page 1700)

Sec'y of Agriculture Reports to President

In his annual report to the President, Secretary of Agriculture Clinton P. Anderson stated, "Now that the war is over, we are moving back toward our old position of virtual security in the matter of the food supply," and he went on to say, according to the Associated Press from Washington, Feb. 16, that although the current outlook showed demand for farm products substantially exceeding the supply, increasing production could easily result in an eventual price-depressing surplus. In an effort to plan now the means of avoiding this situation, Mr. Anderson recommended high-level employment at good pay for consumers as the primary solution, with development of exports and of industrial uses for farm products as other necessary factors.

The Secretary declared that agriculture had emerged from the war with an expanded productive capacity, and added that such capacity does not readily contract. "The story of the war-time increase in capacity is thus a warning," he said, "that in the future we must work constantly for the expansion of demand."

Secretary Anderson expressed the view that if agriculture is not to suffer economically from this increased productive capacity, it must help see to it that full employment at good wages is maintained for those working outside of agriculture and that steps are taken to hold a "considerable" portion of the present export market.

"Like the rest of our economy, agriculture faces difficult reconversion problems. In order to deal with them it must look back and look ahead. The look back will show how war has changed agriculture — how it has altered the type and volume of production, the production capacity, the soil and other farm resources.

"These resources," he said, "must now be fitted to the tasks of the future."

Enforcement of the Anti-Trust Laws

By WENDELL BERGE*
Assistant Attorney General

Justice Official Calls Attention to Universal Support by Political Parties of Vigorous Enforcement of Anti-Trust Laws. Scores Both Private and Government Cartels as Interfering With a Free Economy and Says There Should Be a Reversal of the Concentration Trend in Industry, but Denies Proposal to Break Up the Mass Production System. Says There Is No Uncertainty in Anti-Trust Laws and That Justice Department Is Always Ready to Give Advice Regarding Them. Outlines Present Enforcement Plans as (1) Eliminating International Cartels; (2) Helping Small Business; (3) Protecting Consumer and Farmers; and (4) Removing Restraints That Lower Production and Reduce Employment.

On certain principles all of us Americans are in general agreement. We want a way of life in which there are many free choices for us to exercise as individuals. We resent seeing anybody pushed around. We want free opportunity for the little fellow. We want a government of law because we know that only under law can there be freedom. And we want laws that create and strengthen equal opportunity; not laws that create special advantages for particular classes. We believe in private property and the capitalistic system, but not in special privileges for propertied people.

Wendell Berge

With respect to these basic principles, most of us are in agreement. No sizable group of citizens advocates any radical departure from the pathways of our political and economic freedoms. Most of the argument among us moves on the plane of ways and means of choosing the instruments and procedures to attain the ends we all seek. Our machine is one we like; the one in which we want to ride. The only difficulty is in finding the route to take.

With the constant struggle among different groups to get their hands on the steering wheel the machine seems to be forever veering from one side of the road to the other. When it goes too far to the right, public clamor joins the demands of the opposition, and then sometimes it is jerked too abruptly to the left. Our complaints are generally against the driver rather than the machine itself, and we are constantly accusing each other of tampering with the mechanism.

Some believe the machine would work if it were operated by businessmen; others point to the decade prior to 1932 when business had the wheel and the country was steered into a terrific economic disaster. Some are convinced that the system would work if the machine were turned

*An address by Mr. Berge before the City Club, Cleveland, O., March 9, 1946.

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CED Offers Preventives of Inflation

In Report It Lists Ten Recommendations, Comprising a Program of Fiscal, Monetary and Price Control Policies to Prevent Inflation and Depression and to Speed Production and Employment. Stresses the Importance of Labor Management Cooperation.

In a publication, entitled "Jobs and Markets," the Research Staff of the Committee for Economic Development presents a program of fiscal, monetary and price control policies to speed the expansion of civilian production and employment, to prevent inflation and depression in the return to free markets, and to remove the need for price control at the earliest possible time. Key recommendations of the report follow:

1. Price control authority should be extended to June 30, 1947, but not beyond (except for rents). To leave open the possibility of further extension of price control "would be an invitation to drift into a position where we are always confronted by a choice between continued price control and runaway inflation. We must, sooner rather than later, accept the responsibility for preventing inflation by monetary and fiscal means without price control."

2. While it lasts, price control must be streamlined and liberalized. The OPA must follow a course of "calculated risk" in suspending controls. Price ceilings must be adjusted if they seriously deter or distort production. Pricing standards should permit the average profit expectations of normal prosperity. The present "earnings" standard for price relief—the 1936-39 average return on net worth, before taxes—should be raised by about one-third. Increases should also be permitted whenever the price of a product fails to cover average total costs of production and not, as at present, average direct costs only. All price adjustments under these standards should be based on actual cost experience of the most recent quarter of "normal" operations, without distinction between "approved" and "unapproved" wage increases.

3. The period before the end of price control (June 30, 1947) should be employed to strengthen the instruments of monetary and fiscal policy. Once the present excess of demand has done its necessary work of speeding reemployment, monetary and fiscal measures should be used to curb the excess or prevent demand from becoming deficient, as may be needed.

4. The Congress and the Administration should plan to balance the Federal budget at existing tax rates in fiscal year 1946-47 and if possible run a budget surplus. The Government should be prepared to generate a substantial budget surplus if inflationary pressure continues strong at high employment levels. We should remember that tax revision is not a one-way street. Although tax rates in the post-transition period may appropriately be lower than they are now, taxes may still have to be raised before they can be lowered.

5. To prepare for a possible reversal in which demand-supporting measures would be needed, a large shelf of public works which could be quickly started should be made ready.

6. In view of the uncertainties of the transition, the speed with which fiscal policy can be brought to bear upon an excess or deficiency of demand should be increased. When tax revisions are considered, priority should be given to measures which add "built-in flexibility"—the capacity of the tax system to yield higher revenues when incomes increase and lower revenues when incomes decrease. This can be done by placing relatively more reliance on pay-as-you-go income taxes and relatively less on excises, by permitting the averaging of incomes in tax computations and by speeding up the payment of tax refunds.

7. Congress should authorize temporary (three or six month) variations from the permanent tax rate on the first bracket of the personal income tax and the Bureau of Internal Revenue should prepare the necessary regulations and forms. The change of rate should be enacted by Congress when it finds the change necessary to avoid inflation or prevent unemployment. This would be a powerful instrument to restrict or stimulate consumers' spending but would not unsettle those taxes that chiefly affect business decisions.

8. Congress should authorize the Board of Governors of the Federal Reserve System to raise reserve requirements substantially above present limits and to count Government securities held by banks as reserves. This will enable the Federal Reserve to prevent the banks from obtaining additional reserves by selling Government securities to the Federal Reserve Banks and using the reserves thus acquired to expand bank assets and deposits. It will restore to the Federal Reserve its power to limit the expansion of the money supply. So long as the banks are free to sell the billions of Governments which they own and the Federal Reserve is committed to buy them in order to support the Government securities market, a limit to monetary expansion is hopelessly remote.

9. The Federal Reserve should not prevent Government bonds from falling slightly below par if a tendency develops for the public to sell bonds in order to buy stocks, real estate, other investments or consumption goods. Under present policy, to prevent a drop in bond prices the Federal Reserve would buy bonds, thus increasing the public's holdings of cash (bank deposits) and banks' holdings of reserves. Thus the money supply would be increased just when a decrease would be needed to protect against inflation. This unwanted monetary expansion could be reduced by a decline of bond prices below par, which would slightly increase yields and confront potential bond-sellers with a minor capital loss if they sold.

10. Executive responsibility for transition policy should be clearly lodged in a central authority. This authority should be charged with developing and directing a unified program of fiscal, monetary and price control action to maintain price stability and high employment in the transition. Congressional committee procedure should be consolidated to permit prompt consideration of transition policy from an over-all viewpoint.

The report emphasizes the importance of labor-management cooperative efforts to increase productivity during the transition and the need for raising the average level of real wages as productivity permits. If potential gains in productivity are realized, if business taxes can be and are reduced to prewar levels and if a high level of employment is achieved, real wages one-fourth to perhaps two-fifths above 1939 would be not only possible by 1948 but necessary to provide markets for postwar output. This full increase cannot be realized in 1946, but it is a feasible goal towards which we should start to work now.

This program, says the report, rests upon the belief that, although inflationary pressure is now large, both inflation and depression are real dangers in the course of the transition. Public policy must be prepared to deal with either. Policy must be developed in advance and flexible instruments must be at hand for prompt action. The continuation of price control for one year beyond next June is necessary, but anti-inflation policy involves more than that. Price control must be first supplemented and then supplanted by anti-inflation measures which do not restrict the full and free operation of the American productive system. In the traditional government functions of taxation, public expenditure and monetary control we can find instruments for such measures. But we must focus fiscal and monetary policies on preventing inflation and depression if we are to avoid these hazards and emerge from the transition with an expanding and unregimented economy.

The Investor: Key Man To American Industry

By HON. ALEXANDER WILEY*
U. S. Senator from Wisconsin

Senator Wiley Declares That the American Investor Fulfills One of the Most Important Roles in the Nation's Progress, Particularly Toward Higher Standards of Living. Hailing "The Investoric Age" as the Strongest Bulwark Against Collectivism, He Holds That Free Investment Is Indispensable to Free Labor and Employment. Decrying the "Poisoned Propaganda" Long Practised Against Investors, He Lists the Following Factors Undermining Their Position: (a) The Unbalanced Budget; (b) Bureaucracy; (c) Government Competition With Private Enterprise; (d) Throttling Tax System; (e) Despotic Centralization, and (f) Racketeering Labor Bosses.

There are few, if any, more important roles to be played in the continual growth and progress of our dear country than that of *the American investor.* Why? Because it is the investor who provides the financial means for private enterprise to continue to expand so that our people may have an ever and ever higher standard of living.

Alexander Wiley

But before we go any further, let us see what this system is.

The system of private enterprise is a system of human relations where all men are free to work at tasks of their own choice, to invest their resources at their own discretion, and to enjoy the fruits of their labor and of their investment.

Free labor and *free investment* are two sides of the same coin. You cannot have one without the other. You cannot destroy freedom of labor without destroying freedom of investment. A system where men would be *assigned* to work by the Government or by unions, where men could *not* accumulate savings, where they could *not* invest those savings, where their investments were *not* protected but were instead confiscated and *without* due process of law—this would *not* be a free system. You and I need but look to Europe today to observe how these conditions exist in countless countries.

The Meaning of "Investor"

Now, when we speak of investors we mean both MATERIAL and SPIRITUAL INVESTORS.

By *material investors* we mean those who have invested in homes, in stores, in small and big businesses, in tools of their trade—the

*An address by Senator Wiley before the Investor's League, Buffalo, N. Y., Feb. 28, 1946.

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NWSB Gives New Wage Price Relief Basis

Wage increases which bring hourly rates up to 65 cents an hour have the automatic blanket approval of the National Wage Stabilization Board, which announced on March 21, according to Washington advices to the New York "Times," that such rate increases could be used as a basis for seeking price relief without specific approval of the board. The action raises the sub-standard level recognized by the Board from the 55-cent rate established Aug. 30, 1945. On Jan. 18, regional stabilization boards were authorized to approve increases to bring rates up to 65 cents an hour, for price relief purposes, where warranted in individual cases. In the ruling of March 21 industry members dissented.

The Board also ruled, said the "Times," that some classes of increases given in connection with incentive pay systems, merit and bonus schedules and job evaluation plans did not need specific approval in order to be used as a basis for seeking price relief. The "Times" continued:

The advance approvals were contained in a series of interim orders which will be incorporated later in regulations now being prepared.

In each of the four types of increases the Board authorized advance approval regardless of the date of pay increase.

As in other general aprovals, the board's action means that pay increases within the specified limits may be taken into account by the Office of Price Administration in considering an employer's application to increase price or rent ceilings or the cost of goods purchased by the Government.

The same day in Washington, according to Associated Press advices, Democratic Leader, Senator Barkley of Kentucky, urged his colleagues to get down to work on the administration's minimum wage bill. Forced into difficulties by contesting groups, the measure had lately appeared to be sidetracked. Senator Barkley drew attention to the fact that other work too will fall behind if action is not soon taken for its early disposal.

ABA Convention to Be Held in Chicago

The 72nd Annual Convention of the American Bankers Association will be held in Chicago, Ill., Sept. 22 to 25 inclusive, it was announced in New York on March 11 by Merle E. Selecman, Secretary of the Association. Official convention headquarters will be at the Stevens Hotel. With the convention being planned for this Fall, the A.B.A. will resume the annual meetings of its members which were interrupted last year at the request of the Office of Defense Transportation because of the military requirements of railroads.

The hosts for the 1946 convention will be the member banks of the Chicago Clearing House Association. Solomon A. Smith, President of the Northern Trust Co. of Chicago, and Chairman of the Clearing House Committee, has extended the invitation in behalf of the Chicago Clearing House banks. Mr. Smith will serve as Chairman of the General Convention committee. John J. Anton, Vice-President of the First National Bank of Chicago, will serve as Chairman of the Executive Committee. Mr. Anton served as Vice-Chairman of the Executive Committee in 1944 when the Association held its convention in Chicago. The personnel of the Chicago Convention Committee will be announced later.

Anglo-American Friction and Cooperation

By the EARL OF HALIFAX*
British Ambassador to the United States

Lord Halifax, in Asserting That Anglo-American Cooperation Is Still Urgent, Explains Present Position of the British Empire. Points Out That India Has Been Offered Independence, but That the Hindu-Moslem Controversy Has Prevented Its Acceptance. Says British Mandates, With Exception of Trans-Jordania and Palestine, Have Been Handed Over to United Nations Organization, and That if the Joint Commission So Decides, Palestine Will Be Given Same Status. Defends British Action in Indonesia as Under Allied Direction, and Denies Britain Will Retain Troops in Greece. Holds American Loan to Britain Essential to World Trade and Maintenance of Pound-Dollar Stability, and Cautions That Without Loan, World Economic Recovery Is Jeopardized.

During my five years here as Ambassador I have had the pleasure of taking several journeys through the Middle Western States, of making many friends and of meeting many representatives of your press, whom I am glad to see again here today. When I first came to this country, if I may let you into a secret, I was always warned about the special difficulties of approach to the people of the Middle West; that living as they did a good many hundred miles from the sea, they did not care much for foreigners, and were not particularly interested in what was happening in the world outside the great continent in which they lived.

Lord Halifax

Well, I very soon discovered that was a long way from the truth. I have never found a more friendly welcome in any part of the United States than I have found here; and I have never met any group of people more interested in, or better informed about, the affairs of the world than I have met among those who follow the great profession of the Press in the states of the Middle West. Often I have thought what a good idea it would be if, by extending a principle which became familiar to us during the war, some of the members of this Association could be leased or lent to England for a period. Our newspaper men on the other side would have at least as much to learn from you about the affairs of the world as you might find to learn from them. At any rate, when I go home, I shall make a point of telling my friends, who

*An address by Lord Halifax before the Inland Daily Press Association, Chicago, Ill. Feb. 20, 1946.

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What America Needs

By NORMAN THOMAS*
Socialist Party Leader

Socialist Spokesman Asserts That True Prosperity Cannot Be Obtained by a Tug of War Between Corporations and Unions and That Raising Wages and Prices at Same Time Will Not Benefit Workers. Advocates Workers Voting for Corporation Directors and Attacks UNO as Inadequate to Assure World Peace and Urges Economic Planning Without Bureaucracy or Red Tape. Advocates a Political Realignment With a "Mass Party" and Criticizes Political Action Committee's Inability to Manipulate Old Parties Out of Hands of Those Who Own Them.

There is one word to describe the American scene to a degree unprecedented in my long experience. That word is bewilderment. Ours is a country without leadership or dominant purpose. We have won a total military victory and find ourselves unable to win peace or in peace to guarantee to our people employment and prosperity.

Norman Thomas

We cannot equal the wartime national income unless the purchasing power of the masses of the plain people is vastly increased so that in satisfaction of their urgent needs they can take the place of war as the ultimate consumer. The workers have every right to demand more wages, but money wages extorted by the power of one union or another, accompanied by the price rises which are now inevitable, mean little even of the victors. It is only the United Automobile Workers' Union which has shown an intelligent understanding of this fact. Real wages can only be raised in two ways: (1) By increasing the share of workers as against owners. This is more than reasonable in a country in which before the war, the top third of our citizens received 66% of the total national income while the bottom third received 10%. (2) By increasing the production of civilian goods. This is a necessity to true prosperity. That blessing cannot be obtained merely by a tug of war between corporations and unions. The conquest of poverty and unemployment, to say nothing of industrial peace, requires some fundamental purpose and plan. Yet the American people have been propagandized into an extravagant and undiscriminating fear of planning. We who long ago accepted planning in a dozen areas, from the education of our children to the preservation of public health, act as if planning of any sort were the enemy of liberty. We who have seen the fateful harnessing of atomic energy by man apparently believe

*A talk by Mr. Thomas over the American Broadcasting network, Feb. 26, 1946.

(Continued on page 1707)

Economic Reconstruction Abroad

By MARION B. FOLSOM*
Treasurer, Eastman Kodak Company
Staff Director, House Special Committee on Postwar Economic Policy and Planning

Mr. Folsom, in Praising Action of Congress in Planning Reconversion, Recounts the Work of the Colmer Committee That Visited Devastated Nations of Europe. Attaches Great Significance to Restoration of Our Trade With Europe and Says Immediate Problem Is to Restore Transportation, Provide Food and Raw Materials and Work for Resumption of Economic Life in Germany and Liberated Areas. Upholds Loan to Great Britain and Forecasts Need of Additional Financial Aid by Both Government and Private Agencies to Facilitate Production and Trade in Foreign Countries. Says Loans Should Be for Productive Purposes.

I am glad to meet with you and give you my impressions of conditions in Europe, which I visited last fall with seven members of the Colmer Postwar Committee of the House.

M. B. Folsom

Before discussing Europe, however, I would like to make a few comments about Congress. I have had an unusual privilege during the past twenty months of working in close contact with Congress, as Staff Director of the House Special Committee on Postwar Economic Policy and Planning. It has given me the opportunity to become acquainted with many of the members to see at first-hand how Congress functions. I have been favorably impressed and I question whether constituents really appreciate the work which Congress, as a body, and the individual Congressmen do. They are on the whole a hard-working, able, sincere group of men who face difficult tasks. Many complicated problems are put up to them and they devote considerable effort and study to their solution. The solutions, of course, are not always satisfactory to all groups, but many who are critical do not appreciate that democracy is a matter of compromise, that all groups must be heard and legislation should be considered from the point of view of the country as a whole.

Reconversion Legislation

The reconversion legislation passed by Congress during the past two years serves as a good illustration. Almost everyone agrees that reconversion today is far ahead of what had been an-

*An address by Mr. Folsom before the Mid-Winter Session of the New York State Bankers Association, New York City, Jan. 21, 1946.

(Continued on page 1702)

Earle Cites Russia as Greatest Danger That Ever Threatened America

In the view of George H. Earle, Russia is "the greatest danger that ever threatened America," and at the same time he declared that civilization's outlook was "the blackest in history." Mr. Earle, former Governor of Pennsylvania, and former Minister to Bulgaria, made his remarks as to Russia upon his arrival at Boston, Mass., on March 23 from Istanbul on the American Export liner Exhibitor after several years in the Middle East and the Balkans, part of the time as a diplomat and part as a commander in the Navy with orders to report conditions to the late President Roosevelt. Associated Press advices from Boston, which reported his views as above, also stated:

Mr. Earle said he would tour the country and devote the immediate future to "making America realize what a frightful menace we have in Russia."

He contended Russia should be given an ultimatum to "get back to her own territory and, if they refused, I would use the atomic bomb on them while we have it and before they get it."

The views of Mr. Earle were expressed extemporaneously, and in an account as to what he had to say the International News Service indicated him as saying that world peace "will be lost unless the United States delivers an immediate ultimatum to Russia to get out of Iran and eastern Europe." The INS advices from Boston, as given in the New York "Journal American" of March 24 continued:

Earle said Russia "understands only force and the threat of force." He said:

"Democracy made an appeal to Hitler and he overran Europe. Russia is following the same pattern today. Once the Russians manufacture the atomic bomb there will be few Americans left. They despise our economy."

Continuing, Earle termed Russia a "far greater threat than Hitler was."

"The United States must declare war on Russia, if the Soviet does not live up to its agreement to get out of Iran," he said.

"We must use the atomic bomb on them, too, if they refuse to heed our ultimatum, for they would use it on us. Stalin is spending millions to obtain information about the atomic bomb.

"They would not have attempted to steal atomic information for other than sinister purposes. The atomic bomb is so deadly that we cannot temporize with murderers like the Russian leaders.

"The Hearst newspapers are to be commended for warning the American people against their potential annihilators, the Russians. The Hearst newspapers are performing a great service to democracy."

He placed the blame for present American appeasement of Russia on American statesmen, saying: "Why certain liberals support Communism and Russia, I cannot understand. In Russia there is no liberalism. People are in constant, deathly fear of expressing an opinion."

Earle, who will report to President Truman on his mission, said he would urge him not to leave the current Russian crisis up to the United Nations Organization.

"Russia has made a farce of the UNO," he said. "It is a worthless, powerless organization. The Russians took all the teeth from it when they insisted on having a veto power.

"Don't believe Marshal Stalin's claims in support of the UNO any more than you would believe the word of Hitler. He is the same diabolical dictator.

"Russia's whole history is one of broken promises. The teachings of Lenin advocate deceit, theft, crime, immorality. In Lenin's creed anything unethical is all right—if it aids communism."

He declared Russia had permitted American envoys and representatives to see only what the Soviet wanted them to see and that as a result they knew little more about Russia than does the average American.

"If Russia was sincere with the United States, would Russia keep our Ambassadors and other envoys virtual prisoners within the Soviet? Even after being in Russia for years, these men know little more about what goes on in Russia than does the average American.

"The Russians permitted Harriman, Davies and even President Roosevelt's late personal representative, Harry Hopkins, to see only what the Soviet wanted them to see.

"These men were in constant fear of offending the Russians by seeking too much information. Their hands were tied."

Earle said he went to eastern Europe on a secret mission for the late President Roosevelt long before the outbreak of World War II.

"I witnessed what I believe to be the world's worst atrocities," he said. "These horrible crimes were not committed by Nazis alone but by Russians as well.

"There are more than 15,000,000 people in Russian concentration camps today, suffering the same tortures the Japs committed on Americans at Bataan.

"I have first-hand accounts by officers of the merciless attacks of Russian soldiers on the women of Hungary. When Budapest fell, the women screamed for three days and were raped and killed in cold blood by the Russians."

Earle and his Belgian-born wife, the former Jacqueline Sacre, whom he married last December in Turkey, arrived in Boston from Istanbul aboard the export freighter Exhibitor.

OPA Program a Threat

(Continued from first page)

ment to make profits before taxes at as high a rate as those of the years 1936-1939. Besides the dangers inherent in profit controls by bureaucrats there are other sinister conditions connected with this proposal. One is that Federal taxes are now more than twice as high as they were in the four-year base period. Another is that most firms did not make profits in that base period.

In the four years from 1936 through 1939 only 40% of the corporations reporting for Federal income tax purposes reported any profits. The other 60% of them reported no profits at all and of course most of them reported losses. The Government's own figures on national income report that in that four-year period the "business savings" of all corporations were in red figures and amounted to a loss of nearly 700 million dollars a year, despite some small real savings in 1939.

Chester Bowles wants more power than it is safe to delegate to him, and more than he has shown himself competent to handle. Probably it would be dangerous to lift all rent controls in June, and probably price controls over sugar should be continued, and perhaps that is true also of controls over men's clothing. But controls should be selective and not widely inclusive. They ought not to be rigid and restrictive. We need much more production than we can get under the Bowles program. The Price Control Act should be sweepingly amended as well as selectively extended.

Baruch Named to UNO Atomic Commission

Bernard M. Baruch was chosen on March 18 by President Truman as United States representative on the Atomic Energy Commission of the United Nations Organization. The commission was created at the last London meeting of the United Nations. It will consist of one representative from each of the 11 countries making up the UNO Security Council, plus a representative of Canada, which shares the atomic energy secret with the United States and Great Britain. The Associated Press, indicating this in advices from Washington March 18, noted that the new appointee, Mr. Baruch, one of the nation's elder statesmen, was Chairman of the War Industries Board during the first World War. The late President Franklin D. Roosevelt called on him frequently during the last war for advice and for special missions. The press accounts added:

"One of his best known services in World War II involved a solution of the rubber crisis.

"In selecting Mr. Baruch, President Truman followed the lead of Great Britain in appointing a non-scientist to the Commission. Sir Alexander Cadogen, permanent Under-Secretary for Foreign Affairs, recently was named to represent the British."

The Associated Press also stated that in New York Mr. Baruch announced the following team of "alternates and co-workers" who will labor with him on the task that may determine the future of humanity:

"John Hancock, Wall Street banker, who worked with Mr. Baruch on his rubber and post-war reports;

"Ferdinand Eberstadt, New York investment banker and lawyer and former Vice-Chairman of the War Production Board;

"Herbert Bayard Swope, publicist and journalist, who was Mr. Baruch's assistant on the War Industries Board in World War I;

"Fred Searls, noted New York mining engineer, who was a dollar-a-year man with the Government in several capacities during the war. He was special assistant to Mr. Eberstadt on WPB and also was special assistant on munitions for the Office of War Mobilization and Reconversion. He now is a consultant to Secretary of State James F. Byrnes."

From the Associated Press Washington advices we also quote:

"Mr. Baruch told a reporter that Mr. Byrnes talked with him yesterday about the appointment and "I felt it my duty to accept."

"He said he had no comment to make on the Commission's work and referred an interviewer to the resolution adopted by the United Nations, which specifies that the Commission shall recommend proposals:

"(1) For extending between nations exchange of basic scientific information for peaceful ends.

"(2) For control of atomic energy to the extent necessary to insure its use only for peaceful purposes.

"(3) For the elimination from national armaments of atomic weapons and all other major weapons adaptable to mass destruction.

"(4) For effective safeguards by way of inspection and other means to protect complying States against the hazards of violations and evasions.

"The State Department said that a study of atomic energy controls and safeguards now being made by a committee appointed by Mr. Byrnes would be given to Mr. Baruch upon its completion.

"That committee is headed by Under-Secretary of State Dean Acheson.

"Mr. Baruch said he did not expect to witness the forthcoming atomic bomb test in the Pacific."

Some of the members of the Commission, it is stated, will observe the forthcoming Army-Navy tests of the atomic bomb.

Semi-Annual Report of Export-Import Bank

The Export-Import Bank of Washington submitted its first semi-annual report to Congress on March 18. The report describes the activities of the bank for the six months ending Dec. 31, 1945, and discusses certain policy questions pertaining to the bank's operations.

During the six months period, according to the bank, "requests from foreign governments for reconstruction credits were numerous and large." The Bank goes on to say:

"This was to be expected in view of the widespread destruction and economic dislocation resulting from the war. The bank's consideration of these requests has been generally limited to the immediate and urgent needs of those countries that could not wait upon the operations of the International Bank for Reconstruction and Development.

"At the same time the bank has continued its assistance to American exporters by making available to foreign buyers longer-term credit than could be supplied by private banks and has continued also to furnish to countries outside the war-torn areas credit assistance in the purchase of United States equipment and materials needed to carry out sound development projects."

A table showing the credit lines authorized by Export-Import Bank during 6 months ended Dec. 31, 1945, is presented as follows:

Country and Obligor	Amount (in millions of dollars)	Purpose
Asia		
Saudi Arabia:		
*Kingdom of Saudi Arabia	5.0	Export of various goods and services.
Turkey:		
Turkish State Airways	3.06	Export of airport equipment.
Total Asia	8.06	
Various Countries		
Governments of various countries	5.0	Export of communications equipment.
Special exporter-importer credits	1.0	Various.
Total various countries	6.0	
Grand total	1,039.76	

*Credits authorized before June 30, 1945 but not entered on the books of the Bank as commitments until after that date.

In presenting the above the Bank says:

"Actual loan advances during the period from July 1 to Dec. 31 totaled only $58.6 million. Loan advances against authorized lines of credit are made for the most part only when goods are ready for shipment, usually some months and sometimes a year or more after purchase orders are signed. Frequently the credit lines are designed to cover a purchasing program that may extend over a period of several years. In some instances, furthermore, the borrower never uses the full line of credfit extended. The mere granting of a line of credit by the Bank not infrequently enables a borrower to secure credits from other sources. Thus, there is not only a great time lag between the authorization of credit lines and actual loans but also it is unlikely at any time that actual loan advances would be made to the extent of the Bank's total credit lines outstanding:

The total loan advances during the six months ending Dec. 31 are shown as follows.

(Continued on page 1716)

Prof. Corwin Says Roosevelt Acted Alone Without Consulting Congress

Japan's attack on Pearl Harbor averted a serious constitutional crisis in the United States, it was declared on March 19 by Edward Samuel Corwin, who asserted that the crisis was being precipitated by the late President Roosevelt's policy of using his commander-in-chief powers to push through action in the field of foreign affairs which had its full intended effect before Congress could be consulted. The address by Mr. Corwin, Professor of Jurisprudence at Princeton University, was the first of a series of William W. Cook Foundation lectures presented by the University of Michigan, at Ann Arbor, Mich. His remarks, as given above, were contained in an account from Ann Arbor, as given in the New York "Sun," which further reported Prof. Corwin as saying:

Prior to the enactment of the Lend-lease Act in early 1941, Prof. Corwin said the late President followed a policy which recognized Congressional authority and sought collaboration. One notable exception was the trading of 50 over-age destroyers for rights to naval and air bases, he asserted. The Professor declared that even though this action was directly in violation of at least "two statutes and represented an assertion by the President of power which by the Constitution is specifically assigned to Congress," the President did not seek ratification by Congress.

After the enactment of Lend-lease, Prof. Corwin asserted, Mr. Roosevelt began using Presidential initiative to chart action without consulting Congress and added that this was "a course which must in the end have produced a serious constitutional crisis had not the Japanese obligingly come to the rescue."

In an historical summary of the growth of the President's war-time powers, Prof. Corwin said Lincoln was the first President to use the commander - in - chief clause to justify emergency war actions. He did this by joining the clause to the one which requires the President "to take care that the laws be faithfully executed." It was by this reasoning, the Professor pointed out, that Lincoln justified a series of extraordinary measures he took after the fall of Fort Sumter and before Congress could meet in special session.

Mr. Roosevelt exhibited the same persistency in holding to a predetermined course, Prof. Corwin declared, but by no means the same candor in explaining it or in justifying it to the American people. In his concluding remarks, the lecturer described the Rooseveltian policy "which eventuated in World War II" as resembling a river which occasionally disappears underground only to emerge nearer the sea, which in this case he declared was "the sea of total war."

The State of Trade

(Continued from page 1686)

steel companies having 94% of the steel capacity of the industry will be 88.5% of capacity for the week beginning March 25, compared with 88.9% one week ago, 58.6% one month ago and 96.6% one year ago. This represents a decrease of 0.4 point or 0.5% from the previous week.

This week's operating rate is equivalent to 1,559,700 tons of steel ingots and castings and compares with 1,566,800 tons one week ago, 1,032,800 tons one month ago and 1,769,400 tons one year ago.

Electrical Production—The Edison Electric Institute reports that the output of electricity decreased to 3,987,877,000 kwh. in the week ended March 16, 1946, from 3,952,539,000 kwh. in the preceding week. Output for the week ended Mar. 16, 1946 was 9.3% below that for the corresponding weekly period one year ago.

Consolidated Edison Co. of New York reports system output of 181,000,000 kwh. in the week ended March 17, 1946, compared with 171,600,000 kwh. for the corresponding week of 1945, or an increase of 5.5%. Local distribution of electricity amounted to 179,700,000 kwh., compared with 167,700,000 kwh. for the corresponding week of last year, an increase of 7.2%.

Railroad Freight Loadings—Car loadings of revenue freight for the week ended Mar. 16, 1946, totaled 799,882 cars, the Association of American Railroads announced. This was an increase of 13,680 cars (or 1.7%) above the preceding week and 16,674 cars, or 2.0% below the corresponding week of 1945. Compared with the similar period of 1944, an increase of 14,687 cars, or 1.9% is shown.

Paper and Paperboard Production — Paper production in the United States for the week ending March 16, was 104.1% of mill capacity, against 103.4% in the preceding week and 89.4% in the like 1945 week, according to the American Paper & Pulp Association. Paperboard output for the current week was 100%, compared with 99% in the preceding week and 95% in the like 1945 week.

Business Failures Higher—Increasing in the week ending March 21, commercial and industrial failures exceeded both the number occurring in the previous week and the number in the comparable week of 1945. Dun & Bradstreet, Inc., reports 22 concerns failing as compared with 17 last week and 14 a year ago. Concerns failing this year have continued for 10 straight weeks, with one exception, at a higher level than in 1945.

Almost two-thirds of this week's failures involved liabilities of $5,000 or more. These large failures, at 16 in the week just ended, exceeded the 13 reported a week ago and the 11 in the corresponding week of last year. Six small concerns failed with losses under $5,000.

Twelve of the 22 failures occurring during the week were concentrated in manufacturing. The second-highest number, 6, occurred in retailing where failures were up from 2 a week ago—the only marked change from the preceding week in any trade or industry group. Compared with the corresponding week of 1945, concerns failing in wholesale and retail trade, construction, and commercial service remained at exactly the same number. However, in manufacturing failures were three times as numerous as a year ago.

Canadian failures numbered 4 as compared with 1 both last week and a year ago.

Wholesale Commodity Price Index—The general level of wholesale prices trended higher toward the close of the current week following a short period of steadiness. The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., registered a new postwar peak of 187.30 on March 18, and closed at 187.26 on March 19, as against 186.75 a week earlier. The latest figure reflects a rise of 6.1% over the 176.48 recorded a year ago at this time.

Domestic flour business showed some increase and considerable buying for export was noted but mill offerings remained on a limited basis due to inventory restrictions and uncertainty over wheat supplies. Following the advance of 25 cents per hundredweight in lard prices last week, domestic trading in that commodity showed a moderate increase. Hogs were firm as receipts at leading western markets rose slightly over a week ago.

Wheat futures as well as the cash grain closed strong at the permissible maximums. The wheat supply situation remained tight; visible stocks continued to decline rapidly and Government purchases for export reached heavy proportions. Winter wheat crop prospects were enhanced by good rains in some dry areas of the West. Trading in rye and oats was comparatively heavy with futures moving over a fairly wide range. Corn held at the new ceiling as supplies continued very tight.

Cotton prices during the week held within a narrow range, averaging slightly under the twenty-two-year highs recorded earlier this month. The market was under pressure at times, resulting from unsettling developments abroad and the efforts of the Government to stabilize cotton prices through higher margin requirements. There was also considerable hedge-selling against purchases of CCC cotton.

Consumption of cotton during the short February month, according to the Census Bureau, dropped to 746,994 bales, from 811,368 in January, and 781,149 in February last year. Carded gray goods markets displayed more activity following the recent advance in textile ceilings. Volume reached only moderate proportions, however, due to uncertainty as to the method of computing the new prices.

Despite existing uncertainties, buying of domestic wools in the Boston market broadened last week, with practically all topmakers and manufacturers participating. Much of the purchasing was for blending with foreign wools, supplies of which continued light. Consumption of raw wool, on a scoured basis, averaged 12,800,000 pounds per week during January, according to the Bureau of the Census. This compared with a weekly average of 11,500,000 pounds during December 1945.

Food Price Index at New 25½-Year Peak—Up 1 cent to a further new peak since October, 1920, the wholesale food price index, compiled by Dun & Bradstreet, Inc., for March 19 stood at $4.18. This was 2.0% higher than last year's $4.10, and 3.5% above the comparable 1944 index of $4.04. Commodities rising during the week included rye, eggs, potatoes and lambs. There were no declines. The index represents the sum total of the price per pound of 31 foods in general use.

Wholesale and Retail Trade—An early anticipation of Easter needs, favorable shopping weather, and the proximity of spring have succeeded in sustaining retail volume for the country as a whole this week well above that for the corresponding week a year ago and moderately above that for last week, according to Dun & Bradstreet, Inc., in its current survey of trade. The demand for staples and seasonal articles continued high with many areas reporting larger selections available than during previous weeks.

Food volume was above that of last week and supplies were generally adequate. Fresh vegetables were plentiful with some easing in the shortage of onions. Strawberries, apples, and pineapples remained scarce but citrus fruits were abundant. Requests for dried fruits were less frequent this week. The supply of poultry was plentiful. Reports on meat supplies were mixed with a few localities reporting acute shortages. Fresh fish appeared in greater quantity with the advent of Lent.

Some areas reported that rugs and furniture were best sellers this week with interest directed toward the higher priced lines. Garden supplies and equipment are beginning to attract much attention with the arrival of Spring. Request for housewares continued to be numerous; china and tableware appeared in limited quantities. The selection of curtains and draperies was disappointing to many shoppers.

The shortage of men's clothing remained acute although it was less severe than it has been in previous weeks. Nylon hosiery appeared more frequently and it continued to attract many eager buyers. The mounting interest in suits and coats has succeeded in holding women's apparel high in the ranks of best sellers. Millinery, neckwear, and blouse departments reported a very brisk business.

The retail volume for the country was estimated at between 11 and 15% over the corresponding week a year ago when Easter was only a week away. Estimates of regional percentage increases were: New England 7 to 11, East 10 to 14, Middle West 6 to 9, Northwest 12 to 16, South 18 to 22, Southwest 8 to 12, and Pacific Coast 17 to 20.

Wholesale volume exceeded slightly that of last week and the high level of the corresponding week a year ago with new orders continuing to be placed in large numbers. Some improvement in deliveries was reported although they remained below previously established schedules.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended March 16, 1946, increased by 13% above the same period of last year. This compared with an increase of 14% in the preceding week. For the four weeks ended March 16, 1946, sales increased by 17% and for the year to date by 16%.

Continued easement in some lines occurred here in New York last week in the supply situation, but in others it remained tight notwithstanding OPA price adjustments. As an illustration, under the new pricing order governing men's clothing retailers began to receive shipments but cotton and piece goods remained scarce with most suppliers still figuring their prices under the new order.

Food sales rose slightly during the week as a result of greater quantities of fresh fruits and vegetables entering the market. There was, however, the customary seasonal decline in sales of alcoholic beverages which usually occurs in the early part of Lent.

A slight gain in dollar volume was noted in furniture sales but the picture for unit volume reflected a distinct change for the worse because of the increasingly acute lumber shortage which worked to curtail output.

According to the Federal Reserve Bank's index, department store sales in New York City for the weekly period to March 16, 1946, increased 20% above the same period last year and was without change from the preceding week. For the four weeks ended March 16, 1946, sales rose by 22% and for the year to date by a like figure.

From Washington Ahead of the News

(Continued from first page)

cause it takes sometime for it to get into distribution, and we all know that certain highly important products have been held up because of labor strife. The important thing, however, is that employment is at the highest point in history. There are no mobs of people looking for jobs or wondering where their next meal is coming from. At our home, we were amazed the other day when a fellow came around trying to sell magazines by way of working his way through college. We decided that he was an obvious social misfit. We were also surprised that we could get somebody to resod our lawn within a reasonable time, and it is a pleasant experience to have a waiter in a restaurant thank you for your tip. But our laundry is still hysterical and still losing our shirts and underwear. The point is that there is plenty of work for everybody and there certainly seems to be money everywhere.

Yet in the face of this situation the radicals are still going strong. Contemplate this situation before we go any further. The GM workers were on strike for 121 days. It was unquestionably a fact that GM hoped that when the end came they would have some less radical workers and workers who were more inclined to work, that they would get back workers who appreciated their jobs. The GM management figured that as a part of the cost they were paying for the strike, they would get an increasing efficiency, less trouble from the union shop stewards.

Your correspondent, having been in and associated with strikes thought he knew a little about them. We would have said that the GM management was right in its thinking. The youngsters with no responsibility usually dominate strike votes. They like the adventure, the excitement of a strike. An older man with a family to support always dreads these disturbances. Usually, even if the strike is won, he loses out in the shuffle and the surge of new and younger blood.

But what has happened? As of this writing, GM is still trying to get its men back to work. We are amazed, in the first instance, that these workers would have remained intact after the 121 days of strife. That has not been the experience in the past. A strike of this long duration, incidentally seldom settled by an agreement with the union but through a war of attrition, would have found the workers scattered. A new crowd would have come in. GM wanted a new crowd and rightly so. But instead of getting a new crowd, instead of finding the workers scattered, they find 19 of their plant locals refusing to ratify the agreement. Nineteen locals after being on strike for 121 days, instead of hallelujahing and rushing back to work when the International organization has signed an agreement, still remain out. GM first took the stand that until all locals had ratified the agreement, no plant would be reopened. It has backed down on that and is now attempting to open the rest of the plants.

There is really a study in human relationships involved here.

We should think that by this time your Henry Wallaces and Claude Peppers et al would be trying to get jobs with the National Manufacturers' Association, explaining that it had all been just clean fun. But those are not the facts. Harold Ickes is getting $50,000 a year as the head of the Leftist political action committee of composers, artists, etc., whatever it is, Jo Davidson's outfit, and Jimmy Roosevelt is getting $25,000 a year with the same outfit. Radicalism in our country has become Big Business. It is not a depression business any more at all and not confined to the Townsends and Ham and Eggers. It is an industry with big boards of directors. And there is money to be made.

We are still amazed that even high priced entrepreneurs could continue to traffic in human beings, in good times, as is being done so profitably. But there is no doubt about what is happening.

At the UAW meeting in Atlantic City, we have R. J. Thomas, trying to hold onto his job as President, charging Walter Reuther with having called the GM strike at the most inopportune time and having continued it unnecessarily. Reuther is charging that Thomas is the Communists' candidate. It is all baffling to the imagination. We should think that the workers would really be at Reuther's neck. We hear otherwise. We hear they might even promote him.

But don't make the mistake of thinking this docility and herd-like spirit is peculiar to the UAW workers. We are all becoming that way. If you don't think so, just realize that the present food saving campaign to feed the Russian controlled starving countries and which is threatening to bring back rationing and prohibition, was the sole enterprise of Eugene Meyer, publisher of the Washington "Post," who wanted to throw his weight around.

Churchill Off for England Address in Virginia

Winston Churchill sailed out of New York harbor on the Queen Mary on Mar. 21 to return to London after a vacation in this country which began on Jan. 14. Most of the time in the United States was spent in Florida, resting, but the former British Prime Minister also managed a few speeches which drew the eyes of the world on a man whose opinion has for many years been listened to with respect. One in particular, delivered at Fulton, Mo., at Westminister College, will probably long be outstanding.

As he boarded the ship at 11:45 the night before she sailed, Mr. Churchill gave his familiar V-for-Victory sign, and called a "Good luck", and "God bless you all."

Britain's wartime Prime Minister. Winston Churchill, addressed a joint session of the Legislature of Virginia at Richmond, on March 8, and called on the English speaking peoples to unite in standing "together in malice to none, in greed for nothing, but in defense of those causes which we hold dear not only for our own benefit, but because we believe they mean the honor and the happiness of long generations of men." Applause greeted the remarks of Mr. Churchill as he emphasized the close working unity of British and American troops in the war just ended and urged a continuance of the strong ties between Great Britain and the United States.

The former Prime Minister took occasion to give warm praise to General Dwight Eisenhower, who was present, for his work in welding the Allied troops into a force which fought "as soldiers of a single nation," the Associated Press reported. The General, in turn, paid tribute to Mr. Churchill: "Of all the things that supported me in the years of the war none other was so inspiring as the courage and indomitable support of the Prime Minister of Great Britain."

The Investor: Key Man To American Industry

(Continued from page 1690)

dentist's and doctor's equipment, the carpenter's tool kit. These men and women are *sustainers, builders, creators* of jobs and of wealth.

Of course, the most obvious example of material investors are the 85 million holders of U. S. War Bonds, the 70 million holders of life insurance policies, the 40 million bank depositors, the 15 and more million stockholders and bondholders.

We know how crucial these financial investments have been to our country. We know how the purchase of war bonds enabled our Government to finance the war program, how private life insurance policies insure the security of our people, how bank deposits prove so vital in times of personal emergency and, too, when things run smoothly.

We are also aware of the indispensable role of the stockholders and bondholders. It is they who have made our system of small and large businesses possible. It is they who have enabled America to be technologically head and shoulders above all the rest of the world combined.

Statisticians have estimated that it takes *an average of $7,000 of capital investment to create a single industrial job today.* Without that $7,000, the job cannot be created nor continued. Every year, there is an addition of 700,000 new workers to our labor force. That means that there must be an investment of $7,000 times 700,000 workers or about 5 billion dollars in investment capital simply to provide jobs for new workers.

Where does that capital come from? From the great mass of small investors, the men of industry, of thrift, of vision.

It is these small investors—425,000 of them—who hold stock in the great General Motors concern. 700,000 of them hold stock in the American Telephone and Telegraph Company. 270,000 hold stock in The Radio Corporation of America.

When we speak of these corporations, we must think of the *investors* in them, just as we must think of their labor and their management. *The investor, the laborer, the manager — these are the three pillars* of our industrial structure. Each must be free of termites, of wreckers. Each must be free to make its greatest contribution to the whole. Each must work as a team-mate with the others.

The Investoric Age

For too long has the role of one of the vital members of this team —the investor—been ignored and misrepresented. Actually, as I have indicated, the investor, by making his savings available to management, has become a KEY MAN TO AMERICAN INDUSTRY. So true is this that your able Forum Director, Mr. William Jackman, has called ours an "INVESTORIC SYSTEM."

This is indeed AN INVESTORIC AGE, an age when it is absolutely necessary that great masses of men and women be encouraged to invest soundly and wisely so as to expand and develop our complex system.

Since 1870, over *15 million new jobs* have been created in *15 major industries* brought about by *new inventions.* Had *investment money not* been available to stimulate the development of these inventions, the auto industry, the aircraft industry, plastics, electronics and so on would not have developed to their present advanced stages.

It was the industry, the inventive genius and accumulated savings of our forbears which in the brief span of 150 years have brought us the highest standard of living in the world.

Even before the war, America, with only 7% of the world's population and 6% of the world's land surface, possessed:

71% of the world's autos.
59% of the world's telephones.
52% of the radio sets.
31% of the railroad mileage.

Our entertainment and recreation facilities, our educational system, our health, surpass those of any power on earth.

The Terrible Alternative of Collectivism

And yet, there are those in our midst—Collectivists in word and deed — who would divide our house, who would tear down our industrial structure, who would make investments insecure and then confiscate those investments, who would replace our way of life with the *slavery* of bygone days and of today. We call that slavery "Stateism" or Collectivism or Communism.

The alien way is apparent in Russia today in its economic system, in its political system, in its utter disregard of what we call the democratic way—the way of the Bill of Rights. We know that Russia has experienced centuries of submerged thinking and living —the past of the Czars and the Revolution. But before any American should be persuaded by the glib tongues of those who think that the Russian way should be exchanged for the American way, we should see what they way is.

Private property there is the exception. Her farmers are as serfs on their collective farms. Labor is regimented like soldiers. She has practically no middle class.

Many of the Russian people may be happy. They did a great job in this war. But they do not know freedom of speech, freedom of press, freedom of religion, freedom of assembly, trial by a jury of their peers. With our background, we could not be happy without those freedoms.

How could any clear-thinking, fair-minded man or woman be willing to trade our way of life for Russia's, our freedom for her slavery?

The Menace of Collectivism Here

And yet there are considerable numbers of vicious-minded or misguided individuals who would lead our beloved land down THE ROAD TO SERFDOM.

It is these Collectivists in our midst who seek to poison our minds against the Investoric System. They picture the investor as a worthless parasite, as a bloated plutocrat. They try to smear the builders, the creators of wealth—men like the Fords and Rockefellers—and make them appear as enemies of Main Street.

They try to create a landless, homeless, rootless so-called proletariat — a mob of wreckers who would tear down our society.

We must antidote this Collectivist poison. You ladies and gentlemen, through your national organization, your publications, your forums, your industrious Washington representative, Mr. Nathan J. Paulson, *you have a genuine article to sell in this Investoric System* — this American system. You have a job on your hands to bring light, to bring truth, so as to dispel ignorance and misunderstanding.

You have a righteous cause in upholding the investor—key men for industry, for prosperity—men of thrift, of initiative, of vision—the farmer, the small and big businessman, the professional.

You have a right to prove that *Wall Street and its Exchanges,* wisely and soundly administered, are *the friends of Main Street* and are absolutely dependent on Main Street.

You have the right to uphold as an ideal not the so-called rootless proletariat but the homeowner, the small and big businessman, the stockholder, the bondholder—men and women with roots, with stability.

The Signs of Collectivism Here

Your challenge is an inspiring one, and it is not an easy one. Already, there are many signs of Collectivism contesting our way of life. One symptom I have already cited—the poisoned propaganda against investors. But there are also deeds and conditions which would undermine the position of investors and thus undermine our system. I will name six of these "wrecking" conditions:

(1) *The unbalanced budget,* with Government deficit financing blowing up the national debt balloon—now almost 300 billion dollars—until it bursts and inflation results. Then the Collectivists expect to pay off the debt with worthless currency, although such payments would ruin our people.

(2) *An octopus bureaucracy* with a stranglehold on agriculture and business, sending out arbitrary orders, nuisance questionnaires and incomprehensible directions. I wish that you could be in my office for one or two days to hear the factual stories of the small and large businessmen who write, wire and call me about bureaucratic maladministration which is holding back production.

(3) *Government competition with private enterprise.* We need only to look around us to see how Government today has invaded innumerable spheres of private enterprise and is apparently seeking to drive private enterprise to the wall—in utilities, in lending functions, and in many others.

(4) *A throttling tax system which punishes* initiative instead of encouraging it, which deprives men of the fruits of their labor and of their investment.

(5) *A despotic centralization of authority* which, through the bait of money, takes away from our States and localities, functions which are rightfully theirs, which discourages them from solving their local problems at their local level, which sends them running to the Federal treasury for more and more handouts.

(6) *The rule by a segment of our population* — racketeering labor bosses who dictatorially command what amount to field armies of men. These bosses can order strikes which can paralyze our nation, which can lay us open helpless to atomic and rocket invasion. These bosses can levy tribute upon the consumer, upon management, upon labor itself.

The Counter-Attack Against Collectivism

Yes, these are six conditions which warn us of worse conditions to come, ending finally in Stateism, in a situation where there are no economic, political or social checks and balances but where power is centralized, unopposed and capable of going to any excess. And let me say, my fellow Americans, that *this system of checks and balances,* this system of three separate branches of Government, of big and little business, of investor, laborer and manager *is the very woof and warp of our American Way of Life.*

Well, how are we going to preserve this system? How are we going to counterattack Collectivism?

Let me suggest six ways. Other ways will occur to you, I am sure.

(1) *We must balance the budget* and make the Federal Government live *within* its means. We must reduce the national debt and demobilize useless agencies and jobholders.

(2) *We must get rid of those in Government who are activated by a master complex,* who do not recognize their function as public servants, who do not recognize public office as a public trust, who do not believe in the system of private profit and private enterprise. Get Government out of the "red" and the Reds out of Government.

(3) *We must get Government out of spheres which rightfully belong in the hands of private enterprise.*

(4) *We must set up a tax system that is simple, clear-cut, and follows plans of justice and equity.*

(5) *We must encourage local initiative and local self-reliance,* rather than dependence upon the Federal Government.

(6) *We must curb the racketeer in labor* just as we must curb any racketeers in management. We must provide for the responsibility of unions before the law, for publicized union finances, for democratic union elections. We must prohibit strikes in utilities and nationwide industries and provide for compulsory arbitration as a last resort to prevent strikes and to insure continuous production.

This country belongs to *all of us* —to the general public. It does not belong to this segment or that segment but to all segments—the working, saving, investing public.

Clearing Up Basic Terms

I know that a Collectivist hearing my views and recommendations might falsely denounce them as "reactionary." I do not want to bandy terms about, but I say that it is the Collectivists who are the reactionaries. It is they who would turn the clock back. It is they who would return us to the Dark Ages of Slavery, who would force us back to the days before there was a Constitution, a Bill of Rights, a system of checks and balances.

I, for one, seek to conserve the best that is in America, to conserve our Investoric System, to conserve our unsurpassed standard of living, our Constitutional Way of Life—protection for all American rights. I want progress in the American Way. If that makes me a *Conservative,* then I am one.

There are too many folks about who are mistakenly called "Liberals" who are "liberal" only with other people's money, who are prodigal with other people's resources and other people's liberties.

Their program is "tax and tax, spend and spend, elect and elect" —not the American program. That is an alien program.

Your program, on the other hand, to encourage prudent investment, to safeguard such investment, to get full production, is an American program.

Spiritual Investment

My fellow citizens, we have seen that the INVESTOR IS A KEY MAN FOR AMERICAN PROSPERITY. We have seen the ways in which our *Investoric System* may be developed.

But at an earlier point I referred also to SPIRITUAL INVESTORS, and to the old colored man, Mose, who worked out his problem.

I feel I would be remiss if I did not emphasize as my concluding theme the importance of *spiritual investment.*

You and I know that money and material values are but means to an end, not ends in themselves. Man must not make money a fetish. An individual in our great land may accumulate much worldly possessions by dint of ingenuity and industry. But he can't take those possessions with him. There are no pockets in a shroud.

While he is here on earth, his wealth gives him added responsibility to use it wisely, with discretion and judgment. It is his responsibility to help bring light to other men. "Ye shall know the truth and the truth shall set you free." It is confusion, ignorance and darkness which make wreckers of men.

The material investors of America have the responsibility of wise *spiritual investment.* "Man does not live by bread alone." In this great land, we do not count only our material blessings. Far from it, *we reckon our spiritual blessings as the supreme blessings.* These are the blessings that give us that inner glow of a job well done, that inner glow of growth and fruition.

But just how may we invest spiritually? May I cite three ways. They are the ways of the great, humble man whose birthday we celebrated earlier this month—Abraham Lincoln. They were the ways, too, of the Father of our Country—George Washington.

Lincoln, in particular, the lowly backwoodsman, the humble railsplitter, invested spiritually:

In faith in God and the common man.
In love of the Republic.
In humor.

His faith "moved mountains." His faith was "the *substance* (mark you, the substance) of things hoped for, the evidence of things unseen." His was the kind of faith that prompted an old darky to say:

"Lord, there ain't nothing that you and me can't handle."

Lincoln's love of the Republic, of its freedom, its opportunities, its checks and balances was another investment that could never fall in value.

So, too, was his *humor,* his use of mirth—of a wholesome yarn, to refresh men, to release their taut nerves so they could work out their problems.

You and I can invest, too, spiritually—restoring, strengthening and broadening the spiritual foundations of the Republic. You and I can hold *"unlimited shares of preferred stock" in faith, in humor, in love of the Republic.* You and I can help make the home, the school and the church still stronger foundations of the Republic.

Conclusion

My fellow Americans, I have stated that yours is a great challenge, *a gallant challenge,* to bring light so that our fellow citizens will understand the job of the investors of America.

I conclude with this thought: You, ladies and gentlemen, leaders, trailblazers, *will rise to that challenge.*

You will be adequate. Of this I am certain. YOU WILL BE ADEQUATE.

George Amy Named Sec'y of ABA Group

Appointment of George R. Amy to the post of Secretary of the Commission on Country Bank Operations of the American Bankers Association was announced in New York on March 14 by ABA Executive Manager Harold Stonier. Mr. Amy has been Assistant Secretary of the Commission for the past year. The Country Bank Operations Commission was created three years ago to serve country banks in connection with their internal operating problems. Mr. Amy has been in direct charge of the cost analysis service which the Commission rendered to 3,000 country banks last year. The Commission under Mr. Amy's direction is now in the process of analyzing costs for approximately 5,000 banks which have asked to be included in the program this year and is completing a service charge study soon to be published. Mr. Amy is a graduate of Elizabeth, N. J., chapter of the AIB, class of 1931, and the class of 1944 of the Graduate School of Banking. He began his banking career with the First National Bank in Bound Brook, N. J., in 1927. In 1942 he was elected an Assistant Cashier of the bank. He joined the staff of the ABA in January 1945.

Monetary Aspects of National Debt Policy

(Continued from page 1687)

contractual rights and obligations probably means that the structure of the debt cannot be modified quickly enough to meet transitional postwar inflation should it develop. The wartime tax structure and such direct controls as are still in effect are much more suitable weapons for that purpose. For the longer term, however, these instruments will be much less potent and unless the problems of debt management are met, the possibility of unwarranted monetary expansion will persist.

If a general inflationary problem in the postwar should arise from a steady excess of business and consumer capital expenditures over savings, the appropriate offset would be a budget surplus which would be used to retire public debt held in the banking system and therefore to limit the growth or possibly even contract the volume of deposits and currency. But if inflationary developments should come rapidly, the retirement of debt with budgetary surpluses would be too slow to be an effective control. The direct controls which have been instrumental in preventing excessive use of monetary holdings during the war could not and should not be revived at such a time. It is to prepare for the contingency of marked inflation in the absence of direct controls that there is advanced at the end of this paper a series of suggestions for stabilizing Government security ownership and revitalizing the quantitative credit controls.

Monetary Expansion During the War

The wartime expansion of the Federal debt has been responsible for a very large growth in currency and deposits. Great efforts have been made in the War Loan drives and through pay-roll deduction plans to sell securities to individuals and corporations and other nonbank buyers. But what could not be sold this way had to be sold to the banks. Either directly or indirectly new funds so created passed into the hands of private owners and were held as demand deposits, savings accounts, or currency. In a very broad sense, the proportion of the Federal debt sold to the banking system is an index of the proportion of wartime savings in money form. The distribution of Federal security ownership and of its wartime increase is shown in the accompanying table.

Almost half of the United States Government securities held outside of the Federal Government are owned by the banking system and about the same proportion of the increase in net Federal debt since the end of 1939 was absorbed by the banking system. A little over one-quarter of the increase has been taken by individuals and about one-seventh by corporations (excluding banks and insurance companies). Insurance companies and mutual savings banks have accounted for about one-ninth.

Some expansion of deposits and currency would, of course, have been appropriate to the wartime growth of production and income. Expanded production and income call for larger working balances. Even a more than proportionate growth in cash balances is justified. In the first place the uncertainties of war are legitimate grounds for larger precautionary balances. Furthermore, in the case of business concerns the inability to make capital expenditures as great as depreciation allowances and other business reserves has tended to build up cash balances.

OWNERSHIP OF FEDERAL DEBT

Holders of debt—	Dec. 31, 1939 (In billions of dollars)	Sept. 30, 1945 (In billions of dollars)	Percentage distribution of debt held outside Government: Total Sept. 30, 1945	Percentage distribution of debt held outside Government: Increase Dec. 31, 1939 to Sept. 30, 1945
Total Federal debt outstanding	47.1	260.2		
Held by U. S. Government agencies and trust funds	6.5	26.6		
Held outside Federal Government	40.6	233.5	100.0	100.0
Commercial and Federal Reserve Banks	18.4	106.8	45.7	45.8
Individuals	9.6	58.5	25.1	25.3
Corporations	2.7	30.0	12.9	14.2
Insurance companies and mutual savings banks	9.4	33.2	14.2	12.3
Other	0.3	5.0	2.1	2.4

SOURCE.—Published regularly in the "Treasury Bulletin"; corporation includes "other associations," dealers' brokers, and foreigners. Individuals include unincorporated business. The "other" category consists mainly of State and local governments

But the creation of new money has very substantially exceeded the growth of production and national income and some further expansion seems unavoidable. The present (late 1945) levels of demand deposits and currency are more than three and one-half times prewar levels, and total liquid assets have grown by the same proportion. Over the same period, gross national product at current prices and income payments to individuals have both expanded about two and one-half times, as is shown in the accompanying table.

In the postwar period, presumably, the need for idle or precautionary balances will not be as great as it is now, since gross national product and income payments presumably will recede moderately from wartime levels even if full employment is maintained. In other words, present money levels are probably adequate, possibly excessive, for a number of years to come. The problem then is that of so managing the public debt that it does not lead to further monetary expansion.

RELATIVE MONETARY EXPANSION

(1935-1939=100)

Year (June dates for liquid assets, deposits, and currency)	Gross National Product	Income payments	Total liquid assets of individuals and corporations	Deposits and currency	Demand deposits and currency
1935-1939	100	100	100	100	100
1939	108	105	108	108	112
1940	119	114	116	118	130
1941	147	138	128	131	155
1942	185	175	154	143	183
1943	230	213	226	187	261
1944	243	233	293	218	304
1945 (Est.)	242	245	357	260	354

Inflationary Potential of Present Debt Structure

Without further growth, the public debt could be the basis for considerable further expansion of the money supply. The selling of Government securities held outside the banking system to banks (including redemption of nonmarketable issues) and a growth of private indebtedness to banks would occasion such expansion. And banks would be able to expand credit in these circumstances because they have virtually uncurbed access to reserve funds.

Easy Access of Banks to Reserves. A necessary condition for bank credit expansion is the access of banks to additional reserves. With the present large volume of short-term Federal debt owned by the banks, it is extremely difficult, if not impossible, for credit authorities to use quantitative measures of monetary control to limit the access of banks to additional reserve funds. If banks seek to replenish their reserves by selling Government securities or by letting them mature without replacement, the banking system as a whole will secure an increase in reserve holdings, unless either one of two conditions is met. The first condition would be the existence in the Federal Treasury of adequate budget surpluses to retire debt equivalent in amount to the reduction of bank holdings. The second condition would be the presence of nonbank buyers for an amount equivalent to the reduction in bank holdings. But bank holdings, particularly of short-term securities, are so large that the amounts sold by the banking system could exceed any conceivable budget surplus. And the discipline of market price decline and capital loss is not very effective because banks can depend on maturing issues to supply any conceivable need for reserve funds. At present, commercial banks have more than 25 billion dollars of securities maturing within one year. Furthermore, in a period of emerging inflation it is not likely that nonbank buyers would appear in sufficient numbers, even with a considerable rise in interest rates. Consequently, net sales of securities by the commercial banking system would probably mean net purchases of securities by the Federal Reserve System and therefore an expansion of member bank reserve balances.

With reserves freely available about the only limitations on credit expansion by the banks would be either that demand was lacking or that the banks were reluctant to expand credit because of a shrinking ratio of capital to deposits. Even though the reliance of corporations upon bank credit has shown a secular tendency to decline, a private demand for bank credit could emerge under inflationary circumstances. We have no experience which would warrant reliance upon decreasing capital-deposit ratios to limit bank lending. Without an effective control of the access of banks to reserves, further credit inflation would be possible.

Insecure Ownership of Government Securities. Further monetary expansion could occur if nonbank holders of short term or redeemable issues were to show a general disposition to convert their holdings into cash. This would force the Government into further financing through the banks. If there is reasonable economic stability, this threat may not materialize; but inflation would change the picture. Fixed dollar obligations are not attractive when the price level is rising. And, if a price decline in Government securities or difficulties in refunding were given much publicity, the holders of savings bonds might redeem them in large volume, even though these holders were not directly affected by the fall in price of marketable securities.

Critical Matter Is Not Interest Rates Alone. The critical issue is not solely or even primarily, as it is sometimes argued, whether interest rates on the public debt should be stabilized or whether there should be flexibility in market rates: the structure of the debt itself—that is, the types of securities that evidence the debt—is equally important. With the present debt structure, dominated by short-term marketable debt and by nonmarketable issues redeemable virtually on demand, neither a stable nor a flexible interest rate policy will establish the conditions of monetary stability.

The policy of maintaining stability of interest rates and prices of Government securities makes virtually the whole public debt equivalent to money. It assures individual holders that they can convert their securities into money without appreciable capital loss. It would be hazardous to base monetary policy on the rather tenuous hope that this right would not be used. Banks, particularly, would be left as free agents since there would be no effective central control of their reserves. By selling Government securities, they could replenish reserves and finance private credit expansion.

Although stability of interest rates and bond prices might well impede monetary stability, it is by no means clear that a policy of permitting fluctuations in the rates and prices of Government securities would promote stability as long as the present public debt structure is retained. To be effective against inflation, higher interest rates would have to result in the conversion of idle or excess monetary balances into holdings of Government securities or into time deposits. In the long run, the rate of interest probably has a great deal of influence both on the employment and holding of money. But in the face of short-run inflationary developments of any real magnitude, a very great increase in interest rates might be necessary to resist the conversion of Government securities into deposits. Interest rates of 5 and 6% on Government securities following the last war were not an adequate curb on credit expansion by banks and did not promote nonbanking absorption of Government securities to any significant extent. When prices of commodities can increase more than 10% in a year, high interest rates probably do not have much effect.

Even with advancing rates, banks could afford to use Federal Government securities to replenish reserves. They could probably obtain higher rates from their customers, for rising interest rates are probably a very weak impediment to private credit demands. The influence of short-term interest rates on business decisions may be slight, since in many cases interest is a small part of business costs. Speculative and expansionary activities in the past may have been inhibited less by high rates than by the underlying scarcity of funds.

Furthermore, flexible interest rates and fluctuating Government security prices present an obstacle to stable ownership of securities. Stable ownership of Government securities is itself a desirable goal because it minimizes the chances of concentrated periods of sale and redemption which lead to periods of concentration in expenditures. Some holders are no doubt attracted by the very fact of stability and would hesitate to hold any investment, no matter what the yield, if it were not "dependable." One practical problem is that banks often seem to be very sensitive to Government securitiy prices, probably because of their capital position. Changes in the level of interest rates and therefore security prices in the past have sometimes led to concentrated and panicky selling of securities by banks. Offerings have sometimes come to the market so precipitously that buyers could not be found without rapid and unnecessarily large markdowns in prices. In other words, once a change in prices is set in motion it may tend to go a considerable distance without finding an automatic corrective in the mechanisms of the market. And Federal Reserve buying in such circumstances, though "for the purpose of maintaining an orderly market," expands reserves and creates the potential of credit expansion.

It is sometimes maintained that there is a compromise policy that can be pursued even with the existing debt structure—a policy of maintaining "reasonable" stability in the long-term interest rate while permitting rather larger fluctuations in short-term interest rates. No appraisal of this compromise policy can be made without more exact definition of what is meant by "reasonable" stability in long-term yields. If this sort of stability means relatively narrow price fluctuation with a guarantee for a long period in the future, it is doubtful whether many short-term securities could be sold except at yields very close to the long-term rates. Why should investors hold short-term securities and accept an appreciably lower return if the long-term rate is held within fairly narrow margins? On the other hand would the Treasury go to the short-term market if rates there were above the long-term rate? And in the absence of Treasury demand, and with prospective stability of the long-term rate, could a short-term rate higher than the long-term rate prevail?

Existence of fluctuation in the short-term rate requires that the long-term rate also move within margins wide enough to produce appreciable capital losses or gains and to endow longer term investment with enough risk to deter some investors. But, expanded to this range, the policy becomes essentially one of fully flexible interest rates and, as such, is subject to the limitations discussed above.

Practical Considerations in Public Debt Planning

The first part of this essay has been devoted mainly to diagnosis of the shortcomings of the present debt structure for purposes of monetary control. The remainder will be devoted to prescription. Before undertaking to make concrete suggestions for changing the debt structure it is necessary to recollect a variety of practical considerations that must weigh in any public debt planning. Some of these considerations are more political than economic. The leading ones are:

(1) Planning for financing the public debt must be done as a whole since special limitations or restrictions in one sector of the Government security market have immediate repercussions in all other sectors. In other words, such proposals as are later discussed for limitation of bank ownership carry with them an equally important corollary that dependable markets must be developed in other sectors of the economy.

(2) The kind of new securities issues will have to allow for substantial changes in the structure of public debt ownership. Nonfinancial corporations, State and local governments, and some other groups cannot be expected to hold large amounts of the public debt indefinitely. Holdings may be liquidated by these groups at a greater rate than they can be absorbed by budget surpluses and may therefore have to be absorbed by individuals or by financial institutions. Public debt plans in the postwar period, therefore, should look toward not only steady but increasing ownership of Government securities by individuals, insurance companies, and savings banks.

(3) Other factors being equal, the interest cost of carrying the Federal debt should be as low as possible. Practical budgetary considerations argue for low cost. Also, as explained by Henry C. Wallich in "Public Debt and Income Flow," interest payments on the Federal debt probably support consumption less than other types of Government expenditures.

(4) The sentiment to require price stability for all marketable Government securities must be recognized. The fact that Liberty Bonds declined to the low 80's following the last war is still pointed to as a breach of faith by the Government. It is not clear that a politically sensitive administration could afford to permit

much price fluctuation in marketable issues.

(5) The credit authorities should have freedom of action to deal with either inflationary or deflationary circumstances. The proper preparation of the credit authorities is to secure a strategic position that will permit tactical operations against whichever kind of condition emerges.

Proposed Changes in Public Debt Structure

The changes in the public debt structure proposed in this essay have been framed with the idea of establishing the minimum prerequisites for effective monetary control while meeting the other objectives of debt management as far as possible, *i.e.*, permitting the changes in public debt ownership that are needed to facilitate business financing, avoiding wide fluctuations in Government security prices, and minimizing the cost of the public debt. The greatest change would concern bank ownership of Government securities.

The burden of proof must be on any proposal for change in the structure of the public debt. Change is itself unsettling. It may foster irrational doubts and create unsettled markets. Change must not only offer real advantages but the advantages must be clearly evident. The fact that nonmarketable issues sold so far are redeemable practically on demand and the fact that prices of nonmarketable issues have been stabilized have vested holders with rights that are hard to withdraw or negate. Without compulsion the only way to do this is to offer holders even more attractive rights in other forms.

In the proposals that follow, the only economic interests that might appear to suffer any loss of rights are the commercial banks. But if the case is considered broadly they also will gain by the change. Banks stand to lose from monetary instability as much as any group. Moreover, settlement of the vexing problem of public debt financing opens up the prospect for a flexible interest rate policy with respect to private bank loans and investments. To the extent this meant higher interest rates, banks might profit greatly from the change. Without some modification of the present financing arrangements, interest rates would possibly not be allowed to rise, and hence the whole awkward paraphernalia of restricted issues and similar devices would be retained and even extended in the effort to keep banks from profiting unreasonably from holding Government securities.

Public Debt in the Banking System. Stabilization of interest rates on Government securities reduces the effectiveness of credit control. Ownership of a large volume of short-term Government securities by banks, even without interest rate stabilization, has almost the same effect since banks can secure additional reserve funds and with them take an active, even an aggressive, role in expanding deposits. Any plan to put bank reserves under control must in some way subject bank ownership of Government securities to direct control. The banking system must earn its living and justify its existence by supplying credit for business and consumption, not by relying upon its ability to monetize the public debt.

The exact means for accomplishing this end cannot be specified without a great deal of further study. To be fair to the banks the device adopted should allow for substantial differences among banks in present holdings of Government securities and should permit legitimate private demand for credit to be met. Some of the possible devices that have been suggested are as follows:

(1) Require banks to invest an amount equal to some proportion of demand deposits in a special nonmarketable Government security redeemable only to meet deposit losses.

(2) Require banks to hold an amount of a special nonmarketable Government security equal to increases in demand deposits after some base date such as December 31, 1939. A variant of this device would be to "freeze" holdings as of some recent base date but to permit each bank to vary its holdings as it lost or gained deposits.

(3) Raise reserve requirements on demand deposits (and extend requirements to all commercial banks) but pay interest on reserve balances. Banks would meet these requirements by selling marketable Government securities to the Federal Reserve Banks. This would be akin to the 100% reserve proposal.

This proposal is not made for the purpose of limiting bank earnings. The question is rather one of equity and it should be resolved by deciding which social group should bear the costs of operating the money system. For credit control purposes, the earnings permitted on bank holdings of Government securities might well be generous, though probably below the levels paid other holders of Government securities.

This much interference with the "rights" of private commercial banks cannot very well be avoided. In modern economic systems, the supply of money must be subject to Government regulation, if monetary instability is to be avoided. Because money has come to consist predominantly of the demand deposit obligations of commercial banks, these institutions—though privately owned—are unavoidably in the public sector; they must be subject to public regulation to a degree that is true of no other part of the business community.

One special reservation must be made for the commercial banks. The savings institutions should be permitted to carry Government obligations with an interest return at least as high as the present one. Since commercial banks also transact a large volume of savings business, they should have equal rights to participate in such types of investment to the extent that they hold savings deposits. Thus far, commercial banks with time deposits have not had access to as liberal supplies of long-term Government securities as pure savings banks have had.

Other Holders of Government Securities. If bank holdings of Government securities are to be restricted to special issues, it is equally important that adequate provision should be made for marketing the remainder of the debt. The ideal circumstance to be sought is one in which there would be such a steady and active demand that the new money and refunding needs of the Treasury could be fully met by the market outside the banking system at all times. It means that the securities offered should be made attractive and convenient for the class of holders for which ownership can be expected and should be encouraged.

It would probably be unwise to apply measures of compulsion to the holding of Government securities except in the case of commercial banks. The measures proposed, therefore, are more by way of added inducements, intended to increase the stability of ownership. So far as possible, these inducements should not increase the service cost of the public debt.

While the primary objective in the treatment of nonbanking investors is to secure stability of ownership, other worthwhile ends can be served. To the extent that business concerns own Government securities, they are a source of funds for financing capital outlays that should not be closed off. For institutional investors such as insurance companies and savings banks, these securities offer relatively liquid reserves that permit the companies more freedom in the management of other assets. For individuals the securities offer a savings vehicle and a supplement to social and personal security that should help to encourage more adequate consumption from current income. Planning of debt ownership for individuals should offer incentives for steady and well-maintained consumption while at the same time penalizing excessive concentration of consumption expenditures at irregular intervals of time.

Because the circumstances of ownership vary for the important holder groups—corporations, insurance companies and savings banks, and individuals—the plan of offering for each group is set forth separately.

In the long run, it is doubtful whether *corporations* should be expected to continue to be substantial holders of Government securities. Business corporations are normally net demanders of capital, not suppliers. Reduction of the great tax liabilities incurred during the war period together with postwar capital expenditures should tend to reduce corporate ownership. No doubt a small residual amount will continue indefinitely. Government issues intended for purchase by corporations are now dominated by certificates of indebtedness and tax savings notes and might very well be left pretty much in their present form.

Ownership of Government securities by *insurance companies* and *savings banks* tends to be stable and there might be relatively little advantage in refunding the sort of obligation they now hold. For ordinary purposes, a stable market could probably be assured for outstanding issues by adjustment of the Government's trust accounts whose holdings are now largely in the form of special issues. Except in periods of depression these trust accounts will continue to be absorbers of Government securities. Buying and selling for these trust accounts, perhaps through the agency of the Federal Reserve open market account, could be used to stabilize the market for securities now held by insurance companies and savings banks.

It may be reasonably expected after the aggregate debt has stopped growing that some important groups of holders of Government securities, such as *nonfinancial corporations* and *State and local governments*, will tend to draw on their cash and Government security holdings. It is doubtful if budget surpluses sufficient to absorb this net selling can reasonably be expected for some time after the war. For this reason plans should be made so that *individuals* will continue to absorb more of the public debt, in order to keep this part of the debt from gravitating into the banking system and creating more deposits and currency. Of course, some individuals will be sellers but for the group as a whole continued absorption must be planned. Although to prevent inflation it would be desirable to assure adequate savings by individuals, in order to prevent deflation the savings incentives should not be set too high. The following proposals, therefore, attempt to provide assurance of normally stable holding by individuals together with some incentives for further acquisition, but they also have various features providing long-run encouragement to stable consumption. The proposals look toward conversion of present holdings and shaping of new offerings in three general forms:

(1) The Treasury could offer to sell unemployment insurance which would be in addition to (and in no case restrictive of) unemployment compensation provided under the social security provisions of the Federal Government and the States. This insurance could be administered through existing channels. Purchasers could be permitted to exchange present holdings of savings bonds for the insurance or to pay for it out of future savings. The exchange offer could be held open for a fixed period only and the sales offering of insurance for new savings could be made only when there was need for encouraging savings.

Government receipts and expenditures under this plan would have a stabilizing effect on the economy. If reasonably full employment prevailed, public debt would be retired; if unemployment increased, the payment of insurance benefits would encourage consumption. Both actions would come at the right time to smooth fluctuations in economic activity.

(2) The Treasury could offer life and beneficiary annuities in exchange for present holdings of savings bonds and, in periods when additional savings are needed, through special offerings for cash. Cash offerings could be made through the insurance companies if Government competition in the insurance field were feared. This sort of arrangement serves the purpose of promoting stability in ownership while ultimately tending to encourage stable consumption.

(3) The Treasury could offer stable purchasing power bonds in exchange for any Government security held by an individual. New offerings could also be made in this form. Since stability of real values is unavoidably jeopardized by the after effects of war finance, this sort of offering is equitable.

Stable purchasing power bonds could and probably should be nonmarketable in form and if so should be redeemable only with some penalty. A sliding scale of interest rates such as now applies to savings bonds might be utilized. This plan would be aimed mainly at investors for whom maintenance of purchasing power is important. It is possible, of course, that the stable purchasing power provision might also be made on each of the other two types of offerings outlined above.

Even with the considerable attractiveness of these offers, all of the outstanding issues held by individuals would not be converted. Those not converted but not redeemed or marketed need cause no concern. The money raised by the new plans might be sufficient to absorb issues redeemed for cash before maturity. Market operations for the Treasury trust funds might be used to take up any remaining slack.

Credit Policy With Proposed Debt Structure

If the public debt should be refunded largely into nonmarketable obligations as these proposals contemplate, the Reserve System would no longer effect its credit policy mainly through open-market operations. Credit policy would then be a direct function of debt management (which it is indirectly, in any event). When expansion was desired, an additional supply of the special bank securities could be made available to the banking system. When monetary contraction was in order, the special issues held by banks could be retired and replaced by issues sold to nonbanking holders. Under some circumstances these direct adjustments of money supply would no doubt have to be coordinated with or used to offset open-market transactions by the Federal Reserve System for other purposes. The result would be firmer control than now exists. When open-market operations are used to influence the price of Government securities as well as to adjust the volume of reserve funds, it is not always possible to reconcile precisely these two objectives. If prices on Government securities were no longer at stake, credit operations could either tighten or relax the money market much more precisely. By removing Government securities from the market, it would make possible the revival of credit policies which would vary the cost and availability of funds to private borrowers.

With credit policy effected mainly through direct adjustment of the Government securities held by the banking system, it would be possible to coordinate credit and monetary policy, on the one hand, and general requirements of fiscal policy on the other. When inflationary factors predominated, appropriate fiscal policy would presumably result in budget surpluses. These surpluses could be used to reduce bank holdings of Government securities, which would reduce the money supply or at least curb its growth. Conversely, in periods in which depression elements predominated and in which fiscal policies resulted in deficits, the added debt could be channeled mainly into monetary expansion, if such were thought to be useful.

But What About Deflation?

The proposals made so far have been intended mainly to meet the possibilities of inflation. Would they weaken the power of the monetary authorities to cope with deflation? If deflationary circumstances arose, the system of nonmarketable Government issues would still permit the easing of bank reserves even if the aggregate of public debt were not increasing. But if public deficits should accompany these developments, as they probably would, the direct control of bank holdings of Government securities would furnish a vehicle for monetary expansion. New reserves and new earning assets resulting from the increased debt could be channeled into the banking system. The effectiveness of monetary expansion in such circumstances is not the issue; the point is that the credit authorities would have as effective powers to combat deflation as they have with the present public debt structure.

Netherlands Indies Devalues Guilder

Devaluation of the Netherlands Indies guilder has been reported officially said wireless advices March 3 from Amsterdam to the New York "Times," which reported that the ratio of that coin to the guilder there was being reduced from 1.40 to 1 to 99.75 to 100.75. The message to the "Times" further stated:

"This step does not involve immediate adjustment to the pound and dollar rates as the sterling rate is fixed by monetary agreements of May and July, 1940, to hold good until six months after the conclusion of peace, which has not yet occurred. It is a foregone conclusion, however, that such an adjustment will be effected soon."

Hyde Park Dedication Set

On the first anniversary of the death of President Franklin D. Roosevelt, April 12, his former home at Hyde Park will be dedicated as a national historic site, Acting Secretary of the Interior Oscar L. Chapman announced on March 6. President Truman is expected to be present at the ceremonies to deliver the principal address. The late President's widow, Mrs. Eleanor Roosevelt, will also speak. In reporting the announcement of the forthcoming ceremonies, the Associated Press in a dispatch from Washington described the site as comprising 33.23 acres, including the rose garden in which President Roosevelt was buried on April 15, 1945. Mr. Roosevelt reserved for Mrs. Roosevelt and their children a life interest in the estate, but all waived their rights, giving the Government immediate possession.

Secretary of the Interior J. A. Krug is expected to accept the gift for the Government.

The Anglo-American Loan and U. S. International Policy

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to free it from the restrictions that isolate countries and from the discriminations that divide nations into conflicting economic blocs. We have not been content with securing agreement on abstract principles. International economic problems must be dealt with in the concrete terms in which they arise. The responsibility for dealing with these problems does not rest in any one country. They are international in scope and they can be dealt with only when and if the several nations get together. We have proposed, therefore, that the United Nations provide the means for continuing cooperation through the International Bank, the International Fund and an International Trade Organization.

This policy of international economic cooperation is a frank recognition that the breakdown in world economic relations in the 1930's was an important factor in prolonging and intensifying the great depression. It is a frank recognition that the economic warfare of the 1930's was part of the master plan for aggression by Germany and Japan. Admitting that we should learn from experience, we have urged the United Nations to adopt a comprehensive policy of international cooperation to restore world trade.

The success of this policy depends upon securing prompt economic reconstruction, orderly currency arrangements, and the reduction of trade barriers. World trade cannot be restored until the war-devastated countries in Europe and the Far East are again able to produce, and to buy and sell. World trade cannot be restored until the currency restrictions that have plagued the world for more than a decade have been eliminated. World trade cannot be restored until the present barriers that block trade have been abolished. When the countries of the world are again producing, when they have put into effect fair currency and trade practices, world trade will expand and grow. Then the business men of all countries can secure access to world markets on fair and equal terms.

This international economic program is a big and vital part of what we are doing to give the American people peace and prosperity. You cannot maintain American production and employment in the midst of world-wide depression. You cannot expect sick and hungry men to build a peaceful world. You cannot raise a new generation dedicated to peace in the ruins of bombed-out cities. The chances for maintaining peace will be immeasurably better in a world that is working and trading—in a world in which economic warfare has been eliminated.

Importance to the United States

Our own program of maintaining high levels of production, employment and national income is dependent on our success in expanding world trade. Foreign trade is an important factor in our economy. We need markets abroad. Before the war, 8% of our physical production of agricultural and industrial goods was sold abroad. In many of our more important industries more than 10% of the entire output was exported.

In 1937 and 1938, 31% of our raw cotton, 30% of our leaf tobacco, and 12% of our wheat and flour, were sold abroad. Looking at industrial products, 54% of our refined copper, 15% of our farm equipment and machinery, 14% of our automobiles and trucks, 14% of our industrial machinery, and 11% of our refined mineral oil were sold abroad. The fact of the matter is that for large segments of agriculture and industry, exports mean the difference between prosperity and depression.

Our need for foreign markets will soon be greater than ever before. American production is at the highest level ever reached in peacetime. As a nation we must learn to use an industrial plant with a capacity nearly twice as great as before the war. For every steel ingot produced before the war we can now produce two. For every machine made before the war we can now make four. There are new fabrics, new plastics, new processes. And in agriculture, too, we have reached new records of production for nearly all our major crops.

Much the largest part of our output will, of course, be sold at home; but we must have foreign markets for many of our products. The world needs and wants American goods. We must make sure the world can buy them. The one way to keep the markets of other countries open to American products is to bring about an expansion of world trade. We want to trade. We want to export and we want to import. We ask no special advantages in world trade. And we want no discriminations aimed against us.

A program that stimulates a full flow of trade among nations is necessary for world recovery. That is good business for America. But it is because of no sordid motive that we urge this program on the United Nations. It is also good business for the entire world. We want a prosperous America. We want a prosperous world. We gain more than material benefits, important though they are. In a prosperous world we gain a genuine chance for lasting peace.

That in brief is the program of international economic cooperaaion this Government has proposed to the United Nations. We have made much progress. The World Fund and the World Bank have been ratified by 35 countries. The inaugural meeting of the Fund and Bank will start in Savannah within the week. We have reached the stage where much of this program can be put into practical operation.

The one danger is delay. The longer we wait the longer there will be reliance on the currency and trade restrictions, which reached new heights during the war. If postwar trade becomes adjusted to the protection that these devices provide, there will be strong opposition to their removal. That is why the success of our program depends largely on the prompt application of fair currency and trade practices. But England will not be able to put these positive principles into effect until she is sure she can secure her essential imports of food and raw materials.

The British Problem

The people of England are confronted with a difficult and urgent problem, vital to their whole economy. England must increase her export trade in order to buy the imports she needs. She must expand her export trade to the level necessary to maintain the living standard of her people and the functioning of her industries. In addition, England will require help from abroad to secure, during the next few years, the imports she must have. England must assure her people the means of living and working in the five critical years ahead.

The war has seriously disrupted England's international economic position. In the three years before the war England imported annually $4,200,000,000 of goods. She paid for 55% of her imports by her merchandise exports. About 24% of her imports was paid for with the net income from British investments in all parts of the world. Another 17% of her imports was paid for out of the net receipts from shipping, insurance, banking and other services. England's foreign exchange receipts from all these sources have been sharply reduced.

In order to devote as much of her industrial output as possible to war purposes Britain converted her export industries to war production. Lend-Lease aid from the United States, Mutual Aid from Canada, and foreign loans in sterling made it possible for England to secure her war-time imports without maintaining the prewar volume of exports. In fact, British exports were deliberately reduced until in 1944 they amounted to 30% of the prewar volume. The producing power thus freed was diverted to Britain's armed forces and to her munitions industries.

England's exports have been rising since the end of the war and they will continue to rise. In view of the loss of foreign exchange from other sources, England's exports will have to be increased far above their prewar volume. But even with favorable conditions of world trade and with help from friendly countries England will need several years to expand her export trade. During these years she must find some way to feed her people and her factories with imported food and raw materials.

In financing her overseas war expenditure and her wartime imports England sold many of her foreign investments. These investments before the war yielded net foreign exchange income of nearly $1,000,000,000 a year. With the sale of some investments, the destruction of others in Europe and the Far East, and with the new foreign debt that England incurred, the net income from her foreign investments has fallen sharply. In 1945 it was less than $400,000,000. With present prices, net income from foreign investments will pay for only one-third the quantity of imports it bought before the war.

Shipping and other services have always been an important part of England's international business. During the war the losses from enemy action were enormous, and in spite of the fact that shipbuilding was given high priority, England's merchant fleet was greatly reduced. The insurance, banking, and commercial services that England formerly supplied to all parts of the world have also fallen off along with her trade. With greatly expanded world trade, British income from shipping and other services will again pay for a large part of England's imports. But this, too, will take time.

Not all the ravages of war are seen in rubble heaps. Compare the cost to Britain of her lost foreign assets and her new foreign debt, amounting to more than $17,000,000,000, with the $6,000,000,000 of damage done by German bombs, robots, and rockets and the $3,000,000,000 of damage done by German submarines. To a country like England, unique in her dependence on overseas supplies, the deterioration in her international economic position is even more serious than the destruction from bombing.

Which Policy for England?

The restoring of her international economic position is primarily a problem for England to solve. She must revitalize her export industries. She must increase the efficiency of her workers and her businessmen. That is the only way in which England can increase her exports far above the prewar level. That is the only way in which she can continue to pay for her imports of essential raw materials. There can be no doubt that British industries are capable of developing technical efficiency of a character which would permit them to compete for their share of the world's markets. To survive, England must restore and expand her export trade.

England can deal with this problem in one of two ways. One way is to join in the economic program of the United Nations. She would accept and effectuate the fair trade and currency principles which we have proposed. Under this program, England would remove her wartime currency and trade controls without waiting until her exports have been restored. Then as world trade grows England would share in the growth, and her increased exports would in time pay for her imports.

The alternative is to continue and even to extend these currency and trade controls. England would form a British economic bloc. Countries that want to sell to her would have to take payment in British exports. The countries to whom Britain owes $13,000,000,000 in blocked sterling would be compelled to take British goods in payment of the debts. In brief, England would form an exclusive British economic bloc in which trade inside the bloc is encouraged through preferences and pressures, and trade outside the bloc is discouraged through discriminations and controls. We would be one of the countries outside the bloc.

The people of England prefer to solve their international economic problem through cooperation with the United States and the United Nations. Britain's economic and political traditions and interests strongly favor such a solution. There are few people who want a British economic bloc for its own sake. England, too, needs an expansion of world trade. That is the only way in which she can achieve her objectives of raising British production and maintaining the British standard of living.

England is willing to assume the risk of selling her exports in fair competition with the exporters of other countries. She is willing to commit herself to our program of fair currency and trade practices in order to encourage an expansion in world trade. Britain cannot undertake the commitment to put this program into effect, however, unless she gets help in financing her imports during the next few years.

This help can come only from us and to a lesser extent from Canada and some other countries. If England cannot secure help from the countries committed to a policy of international economic cooperation, she will have to continue and to extend the wartime impediments to world trade. In this way she would simply force additional aid out of the British trading bloc. This is not a matter of preference. It is sheer necessity.

During the war England took measures to mobilize and conserve foreign exchange for essential war purposes. These wartime currency and trade restrictions are still in effect. They were necessary in the war emergency; but they are harmful to world trade and prosperity in time of peace. The continuation of these restrictions would affect us more than any other country. The fact of the matter is that American exports would be excluded from their major markets abroad. We can see from the wartime controls what such a policy would involve.

You have heard a good deal about these wartime restrictions, particularly the sterling area, blocked sterling area, blocked sterling, the dollar pool, trade controls, and payments arrangements. You may want to know how these restrictions operate and how they hurt American business.

The Sterling Area

The sterling area now includes the countries of the British Empire except Canada, and a number of other countries mainly in the Middle East. These countries do much of their business with England and they keep most of their monetary reserves in the form of sterling in England.

Before the war sterling could be used by these countries to buy goods all over the world—in the United States, Canada, Latin America, anywhere. For example, if Australia wanted to buy American cotton before the war it sold the sterling for dollars, and used the dollars to pay for American cotton. That is to say, sterling was freely convertible into dollars.

That was before the war. During the war the sterling area took on some new features. Because England didn't have enough gold and dollars, she no longer permitted sterling to be sold freely. She made sterling inconvertible. In practice, this means that the countries of the sterling area cannot use the sterling they receive for their exports to buy American goods, unless they obtain permission from England.

As it is now, Australia cannot use her sterling receipts to buy American cotton; but she can use the sterling to buy cotton in India or Egypt. In short, while trade among the sterling area countries continues unaffected by these currency restrictions, the trade of all sterling area countries with the United States is subject to the will of Britain.

We do not want England saying to Australia and other countries from which she imports: "You cannot use the sterling you acquire from us to buy goods in the United States." That would mean that American exporters would be discriminated against in all trade with the sterling area.

Blocked Sterling

That brings us to blocked sterling. England had to go on buying goods in the sterling area, and meeting the costs of her armies in India, Egypt and other countries. She bought the goods and she met her war expenses in these countries by paying in sterling. England did not have the means to convert the sterling into dollars, she could not export enough to let these countries use all of their sterling to buy goods. In effect, the accumulated sterling balances were blocked from use.

The amount of sterling accumulated by various countries during the war was very large. Although England sold $4,500,000,000 worth of her foreign investments, her warfime overseas expenditures were so enormous that sterling balances accumulated in rapid fashion. These balances now amount to $13,000,000,000. They are held by foreign countries in the form of sterling deposits in London banks and sterling securities of the British Treasury. This is a tremendous sum for a foreign debt.

What is done about these blocked sterling balances will mean much to American trade. We do not want England saying to India and the other countries hold blocked sterling: "These balances will be freed only to buy goods in England." That would mean the exclusion of many American products from the whole sterling area.

Sterling Area Dollar Pool

England also needed and bought goods outside the sterling area. Many commodities we shipped to England had to be paid for in dollars. And that was also true of some of England's

imports from other countries. England had to mobilize all her dollar resources. She sold some of her American investments to obtain dollars. Other dollars were borrowed by pledging some of her investments. In addition, England arranged to have the dollar receipts of the sterling area countries pooled in, and allocated by, London.

Under this system, when an Indian exporter sells goods in the United States he turns the dollars over to the Reserve Bank of India and receives rupees. These dollars are then sold to England for sterling. This happens in all of the sterling area countries that have net dollar receipts. In short, all the dollar holdings of the sterling area are pooled in London.

Then when a country in the sterling area needs dollars, it applies to London. To conserve dollars, no funds are allocated to buy goods in the United States if they can be secured in any sterling area country. That point needs emphasis. Under the sterling area dollar pool goods are not bought in the United States if they can be found in any sterling area country. American producers lose markets under this system. We want American exporters to have a fair chance to sell their products in every country that has dollars to pay for them.

Other Trade and Payment Restrictions

Along with these financial controls there are direct trade controls on imports in England and all the sterling area countries. These controls are exercised through import licenses, shipping priorities, and in other ways. They are used to exclude goods that are bought with dollars. This has meant, throughout the war and even now, keeping to a minimum the imports of all goods from countries outside the sterling area and particularly American products.

Some countries, including England, do not have the means to pay for as much imports as their people want to buy. Total imports in such countries may have to be limited. But we want the limitations on imports to be applied across-the-board. We do not want discrimination against American exporters.

There is another kind of currency restriction that England is now using. During the war, and particularly since the war, England entered into bilateral agreements with a large number of countries to whom Britain is an important export market. Under these bilateral agreements England pays for her imports from these countries in sterling. The sterling can then be used to buy goods in England and in the sterling area.

Any sterling not used to buy imports from the sterling area must be kept idle. This means that some countries whose export trade is adequate to pay for the imports they want are compelled to restrict their purchases in the United States. We want such limitations removed so that countries can use the proceeds of their exports to every country to buy goods from any country.

Effect on World Trade

The continuation and the extension of these currency and trade controls in England would necessitate their retention in many other countries. Throughout the sterling area and the countries with which England has bilateral payments agreements, supplementary measures would be taken to restrict purchases from areas in which payment cannot be made in sterling. In other countries, particularly Canada, their exclusion from the sterling area market would limit seriously their exports, and they, in turn, would restrict purchases from the United States. It is a vicious cycle.

We are going to have one system or the other. Either we will have prosperity producing world trade or we will have economic blocs. The currency and trade controls in England endanger the whole international economic program that the Untied Nations have developed over the past five years.

The countries that have close trade and currency relations with Britain are a major factor in world trade. Together they account for 55% of world imports and nearly 50% of world exports. Clearly, what such a group does on currency and trade policy must be a major factor in the world economy.

Our own trade relations with this group thus far have been very close. Nearly half of our total exports and imports in the years 1936-38 went to the countries of the sterling area and to the payments agreements countries. Omitting Germany and Japan, 56% of our trade was with these countries.

Our whole program for maintaining high levels of production, employment and national income would be seriously affected. In six commodity groups, constituting more than 80% of all United States exports in 1937, these countries were our indispensable buyers. Of our metal machinery and vehicle exports, they took 47%; of our leaf tobacco exports, they took 88%; of our meat, grain and other food exports, they took 59%; of our raw cotton exports, they took 49%; of our petroleum and related exports, they took 46%; and of our wood and paper exports, they took 47%. Gentlemen, the continuation of these wartime controls would be a body blow to our whole economy.

Conflicting Economic Blocs

We need and want our trade with India, Australia, New Zealand, South Africa and Egypt. These are some of the countries of the sterling area. We cannot risk the loss of our export markets in France, Belgium, Netherlands, Sweden, and Czechoslovakia, or in Brazil, Bolivia, and Peru. These are some of the countries with which England has payments agreements.

What we have here, potentially, is a British economic bloc. Such a powerful bloc excluding the United States, Canada, and the countries of the dollar area would be a challenge to our economy that we could not ignore. Our position in world trade would be threatened. We would have to defend ourselves. We would be compelled to form an economic bloc of our own.

Two rival blocs would mean economic warfare. Probably we would win, but it would be a pyrrhic victory. World trade would be destroyed and all countries would suffer. If England and the United States should drift into such a conflict it would be a tragedy for all. We would find our trade decreased and our people unemployed. England would find her standard of living deteriorated and her people impoverished. The hope for economic cooperation might be lost forever. The consequences to world prosperity and even to world peace would be disastrous.

This would be a sad augury for the postwar world. If we permit a renewal of economic warfare we will not justify our heritage or our faith in the future. International economic problems can no more be solved by economic force than political problems can be solved by war. Our people know this. The British people know this. They know the dangers to themselves and to the entire world that would arise from a conflict in economic policy. They want this problem settled by discussion and agreement not by economic warfare.

Provisions of the Financial Agreement

That is why the representatives of the United States and of England discussed this problem for three months. The American representatives wanted England to remove promptly the various wartime restrictions and discriminations. They wanted England to put into effect the fair currency and trade practices for which the United Nations stand. They wanted England to assure American exporters an opportunity to sell their goods in competition with the exporters of other countries on fair and equal terms. That is precisely what the Financial Agreement provides.

In brief, here is what we gain by the Financial Agreement:

1. Exports of goods and services from the United States to England will be paid for in dollars or if they are paid in pounds, the sterling can be converted into dollars. This is particularly important to the American companies which in the past have experienced considerable difficulty in getting their earnings out of England. They will now be able to get dollars. That means for all practical purposes American business men can be just as sure of payment for their current claims in England as they were before the war.

2. Within a year, unless in exceptional cases the United States agrees to a later date, England will make all sterling arising from current trade convertible. England will thus return to the free use of sterling in international trade that she permitted before the war. For example, if Mexico and Egypt exports goods to England they will be able to use the money they get to buy goods in any country. That means they could convert the sterling into dollars and buy goods in the United States.

3. Within a year, unless in exceptional cases the United States agrees to a later date, England will dissolve the sterling area dollar pool. Each country in the sterling area will again have complete freedom to use its dollars as it wishes. For example, the money India gets for its exports to the United States and Latin America could be spent here without getting an allocation of dollars from England. That means India could use the dollars she gets to buy American machinery instead of being forced to buy English machinery.

4. The blocked sterling balances will be settled by England and the countries concerned. All payments on these balances now or later will be free for making purchases in any country, including the United States. This large debt will not be used to exclude American products from the sterling area, or to put our exporters at a disadvantage in competition with British exporters. England will not force the countries holding $13,000,000,000 in blocked sterling to buy British instead of American goods.

5. England's import controls will be administered in a manner which does not discriminate against American products. If England finds it necessary to impose a quantitative limitation on her imports this will be applied on an equal basis toward all countries. That means England will not keep out American cotton and tobacco, grains and meats, fruits and nuts, or any of our industrial products, in order to buy these same goods in other countries.

6. Within a year, unless in exceptional cases the United States agrees to a later date, England will impose no restrictions on payments and transfers for ordinary current transactions. In effect, all of the countries that have payments agreements with England will be permitted to use the proceeds of their sales to England, if they wish to buy goods in other countries. They will be allowed to use the sterling they acquire in this way to buy American products on the same basis as they are able to buy British products.

In addition, England has agreed that she will support the American proposal for an International Trade Organization to reduce trade barriers and eliminate trade discriminations. Thus, England gives wholehearted support to our policy of expanded trade, with all countries having access to world markets on fair and equal terms. The adoption of the proposed fair trade practices will complete our program for international economic cooperation. England's support of our proposal assures the success of the United Nations trade conference to be held later this year.

The Credit to England

If the Congress approves, the aid that Britain needs in carrying out her commitments under the Financial Agreement will come largely from the United States. This Government will open a line of credit of $3,750,000,000 on which England can draw until 1951 to pay for her current imports. Beginning in 1951, England is to repay the credit with interest at 2%. She will do this in 50 annual payments of $119,000,000. Including the payments under the Lend-Lease settlement, England will pay the United States $140,000,000 a year.

The greater part of the credit will be used to pay for exports from the United States. Directly or indirectly nearly all of the money will ultimately be spent in the United States. The credit to England will enable her to maintain her essential imports. May I emphasize that Britain will still have to enforce an austere level of consumption little different from that of the war years. For some time to come British imports will have to be far below the import demand of the English people, perhaps as little as 60% of the prewar amount.

I want to make it perfectly clear: that the credit is not a gift: that it is a loan which England is to repay; that it is to be repaid with interest; that it is not an unconditional credit. It is a credit which must be used only to meet Britain's current payments and to enable her to remove her wartime currency and trade restrictions. None of the credit can be used to pay the blocked sterling balances or any of England's present obligations. Payments on such obligations must be met by England out of her own resources or out of funds secured in some other way.

The principal of the credit due each year must be repaid without qualification. Under conditions of severe depression in world trade, and under objective standards stated in the Agreement, the interest due in any year can be waived. If such an emergency situation develops, I believe that it is to our own benefit to collect the principal and not to force a default which might have serious consequences to the world economy. As soon as these temporary conditions pass, England would resume the payment of interest on the credit.

There are people in this country who say the terms are too easy. There are people in England who say the terms are too harsh. These people forget that the Financial Agreement is not just a loan. It is a contract with rights and obligations for both parties. When you think of the Financial Agreement in this way, I am confident that you will find that the terms are fair to both countries and they will prove beneficial to both countries.

It is true that the interest rate on this loan is less than England would have to pay on a strictly commercial loan from bankers. The interest is, nevertheless, substantial for an agreement of this character. The effective rate of interest, assuming the credit is used in five equal annual amounts and all payments are met, would be 1.83%. If the credit is used in three equal annual amounts, the effective rate of interest would be 1.76%. This is reasonably comparable to the cost of money to the Treasury.

There is no easy way of stating without qualification what is the cost of borrowing by this Government. The computed average rate of interest on all outstanding Government loans is 1.97%. This rate is more than the cost of new borrowing and more than the Treasury actually pays. If the Treasury were now borrowing $3,750,000,000 through the same securities we now have outstanding, and in the same proportions, the cost on the basis of present yields would be 1.64%. I say, therefore, that the rate of interest on the credit it is quite comparable to the cost to the Treasury of borrowing this money.

The interest charged on the credit is only a part of the Agreement. The terms on which this Government can offer the credit, the terms which England can undertake to pay, are determined by those provisions of the Agreement which commit England to certain currency and trade practices. The benefits that this country will secure in the form of expanded trade and increased national income are far more important than the principal and interest that England will pay. Our people will see the effects in higher incomes for our farmers, our workers, and our business men. The Treasury will see the effects directly in the revenue it collects in taxes.

If you want to see the real meaning of the Financial Agreement, just consider the opposition to it in England. The opposition is directed very largely to the provisions regarding the convertibility of sterling received from current transactions and their free use to pay for exports from the United States. The opposition comes from a small but influential group which has urged that England retain the present restrictions, secure the necessary volume of exports through bilateral agreements, and form a British economic bloc. The great majority of the British people join with us in a desire to deal with international economic problems through international economic cooperation. They ask merely the aid to carry on until this program has had its effect in expanding trade.

Special Bond Issue

You have seen the proposal that the credit to England be given only from funds invested in special bonds issued for this purpose. The payment to bondholders of principal and interest would be made only from the sums received from England. Of course, no bond issue of this kind ever was or ever could be floated. This is not just a commercial loan, and it is not the kind of loan that private investors or private bankers should make. I have a feeling that this proposal is simply one form of saying "no" to the Agreement.

It is most important to appreciate fully that a loan on bankers' terms would not give us the basic objective and the broad benefits of the Financial Agreement. That objective is the removal of discriminatory currency and trade restrictions. These restrictions reduce world trade, force it into uneconomic channels, and discriminate against our exports. The interset on a loan in which you get commitments to remove these restrictions must obviously

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be more favorable than the market rate for foreign securities.

British Investments in the United States

Some of the opponents of this loan have said that the British ought to sell their assets or put them up as collateral. This is based on a misconception of the amount of British investments in the United States. In order to pay for her purchases of munitions prior to Lend-Lease, England sold $820,000,000 of her American investments. In addition, she pledged a considerable amount of her American investments with the Reconstruction Finance Corporation in 1941 for a loan with which to meet obligations incurred prior to Lend-Lease.

At the end of 1945 British holdings of securities and direct investments in the United States, including pledged assets, amounted to about $1,475,000,000. This was divided into $575,000,000 of securities and $900,000,000 of direct investments. The Reconstruction Finance Corporation estimates the value of the collateral pledged against the loan at about $895,000,000. Of the $580,000,000 of securities and direct investments which remain unpledged, many are small holdings and of the type that cannot readily be vested and sold by the British Government.

Apart from these assets, there are some British interests in estates and trusts set up under American law. British interests are intermingled with the American interests in these estates and trusts, and the assets cannot be taken by the British Government. They are under the jurisdiction of American courts. The only way to value these interests is by the arbitrary capitalization of the income. On such a basis, British interests in American estates and trusts would not exceed $350,000,000. All other scattered and miscellaneous British holdings in the United States, equally difficult to vest or liquidate, are estimated at approximately $100,000,000.

Effect on Inflation Problem

Opponents to the loan make the point that the credit will add to the inflationary pressures in this country. I have been concerned with the inflation problem in more than mild fashion for some time now. I know how important it is to this country to prevent inflation. It remains our most important domestic problem. The long-run sound way to fight inflation is to produce more goods in the United States and to produce more goods throughout the world. The lifting of trade restrictions as a result of the Financial Agreement will stimulate trade and production everywhere. In that way, it will do much to relieve the world shortage of goods and help the fight against inflation.

The $3,750,000,000 credit will not be spent all at once, nor will the bulk of it be used to purchase goods that are in scarce supply. It will be used over a five-year period. The amount of the credit is about one-half of 1% of the total demand for goods in the United States during the next five years. Part of the credit will be used to buy goods of which we already have a surplus, like cotton. Certainly, the credit will increase infinitesimally the total spending in this country. That will be more than offset, in my judgment, by its favorable effects on production and trade which are the real factors in preventing inflation.

Not a Precedent

The credit to England is in no way a precedent for other loans. Its particular purpose from the American point of view is to free a major segment of the world's trade from the currency and trade restrictions by which it is now shackled. The key to the removal of these restrictions is to make it possible for England to pay for its imports with funds that can be used to buy goods in any country. What England does about her currency and trade controls is of the utmost significance in determining whether the entire world will be one large and prosperous international trading group or whether it will be broken up into conficting economic blocs.

The proposed credit to Britain is to enable her to participate in world trade, without curreney and trade discriminations, while she reconverts her industries to peacetime production and resumes her usual place in world markets. No other country has the same problem. No other country has the same strategic position in world trade. That is why this loan cannot and will not be regarded as a precedent.

Other nations needs help. Some will need help for which they cannot pay. They will get such help through UNRRA. Some will need help in maintaining the stability of their currency. They will get that help through the International Fund. And many countries will need help in restoring their economy. For all worthwhile projects, help of this character will be available through the Export-Import Bank and soon through the International Bank for Reconstruction and Development.

The Bretton Woods Agreements Act established the National Advisory Council on International Monetary and Financial Problems. This Council is charged with coordinating the activities of all agencies of the Government on foreign loans and monetary transactions. The members of the Council have spent many hours during the last six months in carrying out their statutory responsibilities. They have met more than forty times to go over the foreign financial problems before this Government.

The first report of the Council, as required by law, has just been sent to the President and to Congress. When you examine this report, I believe that you will agree that the Council has been motivated by the desire to carry out in the financial field the major objectives of American foreign policy while securing the most efficient use of the funds of the American taxpayer.

An Investment in Peace and Prosperity

The loan to Britain is an essential and integral part of our program of international economic cooperation. A peaceful and prosperous world requires the full participation of England, and of the countries closely linked with England, in the world economy. The policy that Britain chooses in meeting her balance of payments problem will affect the economic well-being of the entire world. The United States has a vital interest in the solution of this problem.

The Financial Agreement is a sound investment in world peace and prosperity. Not only will the $3,750,000,000 be fully repaid, but American business will reap rich dividends through its access to world markets on a fair and equal basis. Every section of this country, every sector of our economy, depends in part on world trade. The Financial Agreement will open the markets of England and many other countries to our exporters. This means more exports for our farmers and manufacturers, more jobs for our workers, more profits for business, and a higher income for all our people.

We live in a world that is growing more interdependent economically and politically. The great hope of mankind is that we will proceed to build the kind of world that our heads and hearts desire. We are doing that in cooperation with the United Nations. There can be no turning back. It is impossible to revert to the international political or economic conditions of the 1930's without endangering the welfare of this country and the survival of the entire world. Our people are determined that political and economic differences should be settled by peaceful and cooperative means.

Man will not have fulfilled his divine destiny while there is war and want. Two world wars and a world depression have made this a generation of bitter memory. It is wonderful to have again the hope of peace and plenty. The cynics shut their eyes and close their ears and sit among the scorners. Ours is a higher duty—to find a way to give effect to the will of the people. Let us have faith equal to our great task. Let us put into effect the determination of our people for a world in which nations work and live together in peace and prosperity.

There are times that are turning points in the history of mankind. This is such a time. The decisions we make or do not make today will shape the destiny of the world for generations to come. I pray that we shall have the vision to act bravely and boldly.

Enforcement of the Anti-Trust Laws

(Continued from page 1689)

over to labor; others argue that the past decade has revealed such weaknesses in labor leadership that it would be an unwise guardian of the nation's destinies.

Nevertheless, the pressures from these divergent groups have not shaken our faith in the essential soundness of democratic principles of government and the free competitive way of conducting business.

What each of us wants, of course, is for the machine to be operated by the driver of his own choice and to be driven along the road which each of us wants to travel. We all believe abstractly in a free economy but we are not all agreed on what it means. What most of us have in mind when we speak of a free economy is freedom from the drivers who will not steer the machine along the avenue of our own particular choice.

We do not all seem to be in agreement as to what we mean by a free economy. Probably we usually mean freedom from any top control. But many people identify control with supervision by the government. They do not think of control as regulation or regimentation of industry by private authority. But private control may be even more sinister in its effects upon freedom than government control, because it substitutes complete irresponsibility for the checks and balances of public opinion.

Private Cartels

A cartel, as well as an agency of state, may seek to impose control and direction of an industry. Yet no government agency has ever gone as far in regimenting business as have private cartels. A supreme authority subject to no judicial review or public responsibility issues licenses to a trade, keeps out persons it does not want, assigns particular operations to different companies, divides markets and territories among the elect, allocates quotas for production, sets up rigid schedules of prices, and, in fact, decrees a private code of laws. In its decisions only the seller is represented; the consumer is stripped of all the rights he possesses in the open market. If any government should attempt to do such things—exclude firms from the industry, carve their markets as proprietary domains, fix the conditions under which a firm could carry on, place floors beneath which prices could not fall—you can imagine the hue and cry which would arise.

Any national administration which persisted in such arbitrary action would be driven from office immediately. Yet far greater powers than any we are unwilling to entrust to government are assumed daily by combinations of large corporations. Not only is the range of regulation greater; it is exercised in secret, without a public record. The power is wielded away from public knowledge, not subject in any way to the public interest. This pattern of control extends to the essentials of life—foodstuffs, housing, railroad transportation, iron and steel, heavy metals, chemicals, and many other commodities and services.

And under the jurisdiction of these private governments, it happens that goods are often not sold separately but in combination. To get the things you want, you have to buy the things you do not want. Could any public government endure which openly avowed such a policy? These private governments withhold inventions from use and even arrest experimental work until all the profits can be sucked out of old processes and outmoded equipment. Again, would any public government which openly indulged in such practices be tolerated by the American people?

Under a truly free economy decision as to what shall be produced and where it shall be produced, where and how goods shall be marketed, what prices shall be charged, would be determined not by a government agency nor by a group of industrialists exercising monopoly power. Such decisions should be made by the competitive activities of businessmen themselves, and in no case should the choice of a single producer or distributor be controlling. If some enterprising and courageous businessman is willing to gamble his money or his judgment attempting to produce a better and cheaper article than any made by existing concerns, he is typifying the very essence of the competitive system. If the industrialists already in a business cannot compete successfully with newcomers under a system of a "fair field and no favors," they are condemned to failure by their own arguments. It is more than inconsistent to demand a free economy on the one hand, and yet advocate measures of private restrictive control on the other. Such self-contradiction bespeaks unmistakably a willingness, if not indeed a desire, to abandon the historic foundations of free enterprise.

The Anti-Trust Laws

The anti-trust laws are more than 50 years old. Their strict enforcement has been pledged by both major political parties in every party platform since 1900, in which year the Republican platform practically restated the Sherman Anti-Trust Act and claimed credit for its enactment. In the next three platforms, the Republican Party went even further in its pledges of enforcement, and in 1916 it declared that "all who violate the laws in regulation of business should be individually punished." As late as 1936, the Republican platform, framed in a convention which met here, in Cleveland, carried a pronouncement that "private monopoly is indefensible and intolerable." During all those years the Democratic Party was no less vigorous in its pledges of support.

Not so long ago a distinguished committee composed of the editors of "Time," "Life" and "Fortune" undertook a comprehensive study of "America and the Future" with particular reference to the postwar era. This committee, after two years of work, came to grips with these basic questions: "How a policy of freedom can be vigorously applied at home (1) to encourage millions of enterprising men and women; (2) to stimulate productive investment; (3) to attack monopolies; (4) to make free markets freer; and (5) by these means, plus intelligent use of government fiscal power, to maintain employment."

The committee reached the following conclusion:

"Monopolies must be prosecuted. The Sherman Act has been on the books for 53 years. The U. S. is the only big country that has such a law (intelligent Englishmen wish they had one) and it is deeply imbedded in American beliefs. But it was sadly neglected in enforcement until Thurman Arnold came along. And a truly liberal postwar government should enforce it not only with all of Arnold's zeal, but with more consistency and system.

"A thorough campaign against monopolies will require great skill and courage, for vested interests of every kind stand in the way. Moreover, its victims will point out (what is perfectly true) that a 100% free market is an illusiory ideal that never existed . . . But if the Government's anti-trust policy is realistic as well as aggressive, it can revive competition in many markets where it has needlessly declined. It can also bring a downward pressure on those 'administered' prices which are too high for maximum volume."

Moreover, it is interesting to observe that some kind of monopoly declaration is contained in nearly every postwar plan submitted to the public. Thus it appears from a continuous body of testimony developed throughout the past half century that in principle there is no division of political or economic opinion on the essential wisdom of the anti-trust laws. Upon this level the only difference is in judgment as to the method and manner of enforcement.

Trend Toward Industrial Concentration

Despite this agreement on principle, the trend toward concentration of control over business and industry and the elimination of small business has grown alarmingly during the last several decades. It was estimated in 1929 that 200 non-financial corporations controled 49% of the assets of all such corporations. By 1933 the percentage had increased to 56%. The 200 largest corporations were directed nominally by about 2,000 individuals, but actually the control resided in the hands of a much smaller number of men.

Taking another group of comparative statistics, in 1909 there were 268,000 manufacturing establishments in the United States. Their total products were valued at $20,000,000,000. In 1939 there were only 184,000 such enterprises, with a total production valued at $56,000,000,000. On balance, this amounts to a reduction of 84,000 establishments in the face of an increase of $36,000,000,000 in value of production. And add also the fact that during this period the population of this country increased by some 39,000,000.

Consider several particular industries: Fifty years ago there were 15,000 tobacco manufacturers; now there are less than 800, with four major companies dominating the industry. Fifty years ago there were 28,000 manufacturers of lumber and timber products; now there are less than 12,000. Fifty years ago there were

nearly 700 iron and steel manufacturers; now there are less than 350. And so it goes on through agricultural implements, shoes, chemicals, cotton goods, glass, and other wares. In another generation, unless the trend is reversed, there will be no opportunity for a businessman, no matter how ingenious or well financed or daring he may be, to enter any of the hundred or so basic industries in this country, except by the tolerance and patronage of the three or four companies controling the entire industry. In other words, competition will have ceased to exist in this country.

Unfortunately the men who are in control of these huge concentrations of economic power use their private power in a way which would be unthinkable of public power within the framework of democratic government. If the nation wanted to impose a sales tax of one-half of 1% and thereby decrease the people's purchasing power, the question would be publicly debated for months. There would be long discussion and hearings and those who took the action would be held accountable for it. On the other hand, if the great industries subject to monopoly and cartel control wish to raise their prices 10%, there is no public debate, there is no hearing for those who may pay the exaction, and those who lay the burden need acknowledge no public responsibility.

International Cartels

The American public has become acutely aware in recent years of the power exercised by international cartels. These cartels were used by Germany in particular, as a means of waging economic warfare during the years preceding the outbreak of military hostilities. The record is replete with illustrations of how German industrialists exacted agreements from American industrialists which had the purpose and effect of restricting production in this country, preventing new industries from developing here, restricting our exports, restricting our development of new technologies and otherwise hampering our war potential and weakening our national security. To American businessmen these transactions from the vantage point of the 1920's and 1930's were merely business deals to secure them from undue foreign competition, to preserve domestic markets against the intrusion of outside competition, and to obtain domestic monopolies on the distribution of foreign products or on the develpment in this country of products and processes developed abroad, and otherwise to obtain monopolistic advantages. American businessmen did not think of these transactions in terms of their operation against our country's interest. These businessmen were not acting from any unpatriotic motives, but, to say the least, the policy behind these cartel arrangements was shortsighted.

The facts about cartel operations have now been spread upon the public records. We know that among other things international cartel arrangements between American firms and foreign firms provided for worldwide division of markets and fields of operation in order to eliminate competition; for restriction on the development of new processes and products; for production quotas, having the effect of limiting domestic production and production capacity; and for non-competitive pricing. We know that, apart from the effect of these agreements on our war potential, they lowered the standard of living and reduced employment in this country.

Must Reverse Trend Toward Concentration

We can read the lesson of recent history and learn that if we are to have an expanding economy with a rising standard of living in the years immediately ahead, we must break up existing cartel arrangements and prevent the growth of new ones and the resumption of those prewar cartels which of necessity were suspended during the war. We have learned also that if we are to preserve the essential characteristics of what has been called the American way of life, we must reverse the trend toward concentration of the private control of industry and open again the paths of opportunity to independent entrepreneurs, to the veterans; in short, to the many men and women throughout the country who only want a fair chance to make their individual contribution to our national well-being.

The anti-trust laws are an important factor in the accomplishment of these objectives. Enforcement of the anti-trust laws is not an attack on business. Indeed, it is quite the opposite. An an anti-trust suit is not a contest between government and business. Rather, it presents an issue between those businessmen who want a free market and those who want a privately controlled market so long as they can sit at the seats of control. The anti-trust laws do not involve any plan of government regulation or direction of business. Indeed, their purpose is quite the opposite. They contemplate a minimum of government regulation, with businessmen themselves free to make the important decisions regarding production, distribution and price. In this aspect the anti-trust laws simply seek to protect the freedom of the market against the aggressions of those whose operations would interfere with the free functioning of the market. I know of no seriously advanced theory that in the modern world a competitive market can long survive without some governmental protection for free competition. And in this country the anti-trust laws are the principal instrument by which the Federal Government seeks to give that protection.

We are told, however, that the anti-trust laws are uncertain and that businessmen do not know how to make decisions necessary to comply with the laws. It is true that the Sherman Act is not like an administrative regulation which fixes every detail of conducting a business. It has some of the characteristics of our Constitution. The general public policy which the Sherman Act embodies must be applied in each case. But I submit that the application of the anti-trust laws to most industrial practices today can be pretty well determined by the lawyers and economists who have studied the court decisions, and the economic problems involved in keeping a market competitive. Close questions will arise from time to time as will happen in the interpretation of any law. But there is no longer any dearth of court decisions or precedents, and the Department of Justice is always willing to try to advise interested parties on difficult problems of interpretation of the law.

No Desire to Break Up Mass Production System

No one wants to break up efficient mass producing business concerns; but no one, except maybe a monopolist, tries to justify combinations formed to gain monopolistic advantage. The line between efficient mass production and arbitrary monopolistic control over industry cannot be drawn in the abstract. It depends on the facts in each case. And businessmen know now, if they did not know before, that price fixing arrangements among competitors, division of markets and deliberate suppression of competition is illegal.

Active enforcement aids the law-abiding businessman. Most American businessmen are law abiding. Only a few want to use economic brass knuckles. If businessmen can depend on active anti-trust enforcement, they will not have to resort to monopolistic devices in self defense. They will not be compelled to compete in a controlled market.

Present Enforcement Plans

Most of our cases originate in complaints. But we always have more complaints than we have people who can handle them. Our job is to select cases so that we can do the most to help establish a free peacetime economy. The purpose behind the cases we are going to push in the immediate future are:

(1) To break up international cartel arrangements which weaken our national economy.

(2) To help small businessmen. Returning veterans particularly want and deserve a chance to set themselves up in business. We'll do our best for them.

(3) To protect the consumer. For example, housing is one of the most important problems today. If we can eliminate restraints on the manufacture and distribution of materials, on new methods of building, such as prefabrication, it will help relieve the housing problem. Clothing and food cases are equally important.

(4) To eliminate restraints that lower production and hence reduce employment.

(5) To protect the farmers' markets.

We will judge our cases by practical results. The most important cases will come first, and we expect to push those which will do the most good for the country as a whole.

There are many instances that could be cited of practical results that have been obtained from anti-trust litigation—results that are definitely in the public interest. Let me take just one example—aluminum.

You will recall that back in 1937 the Government instituted a dissolution suit against the Aluminum Company of America, on the ground that it exercised a virtual monopoly control of the entire aluminum production and distribution in this country. The suit was tried over a period of several years, and the record of evidence was closed in 1940. The District Court held against the Government, but ultimately on appeal to the Circuit Court of Appeals for the Second Circuit (which had special statutory power to render a final decision), the judgment of the lower court was reversed. The Circuit Court of Appeals held that the Aluminum Company of America had monopolistic control of the production of aluminum ingots. This monopolistic control was at least supported by the company's large resources of bauxite, power sites, control of the production of alumina and of fabricating facilities.

The Court of Appeals' decision was rendered only last year, and the Court took note of the fact that the Government had created a vast aluminum producing capacity during the war. In view of this new capacity and other developments in the aluminum field since the closing of the record in 1940, the Court in effect postponed final decision on the necessity of dissolving the Aluminum Company of America, pending the outcome of the Government's plant disposition program. The effect of this decision seemed to be that the necessity for, or the extent of, dissolution of Alcoa would depend upon the effectiveness of the plant disposal program in creating independent competition. In view of the Court's holding, the disposal agencies of the Government have thus far not sold or leased any of the Government production capacity to Alcoa; instead, there has been a determined effort to dispose of Government plants so as to create independent competitive operations in the aluminum field.

Last fall it appeared to be a serious question whether the immediate postwar demands for aluminum would be such as to make it possible to continue the operation of many of the Government plants. It was forecast that there might be a huge supply of aluminum hanging over the market for several years, after the aviation and other war programs were curtailed. The prospect for independent operations in the immediate postwar period did not seem very bright. But all of this has now changed. Unexpected demands for the use of aluminum in the production of automobiles, housing and other peacetime industries have created a vast market, and the surplus disposal agencies have already leased the principal war plants to companies that will be competitors of Alcoa. The prospect for a vigorously competitive industry in aluminum is now very bright. It is impossible to foretell the number of companies that will ultimately be active in this field. But it is quite certain that a competitive situation is being created in aluminum. It would never have been possible without the anti-trust suit. This fact is generally conceded by all parties having knowledge of the situation.

The result will mean a more adequate supply and cheaper aluminum. You will recall that when the war broke out we were critically short of aluminum and we were called upon to turn in our pots and pans and other aluminum equipment. You may also know that the price of aluminum was raised substantially during the first World War, and that as a result the amount of aluminum used in automobile production was drastically curtailed. Indeed, I am told that just before the present war an average of only about five pounds of aluminum per car was going into automobile production. Competitive prices will make it possible in the years ahead to utilize aluminum to a much greater extent, both in automobile production and in many other major industries. This means more jobs and a better standard of living for all.

Curb Monopolies or Have Government Regulation

If we fail to curb monopolies, the alternative will be some kind of Government regulation. Effective regulation of monopolies would require a bureaucracy so great that it would amount virtually to a reversal of our conception of the function of government. Effective regulation would require a governmental organization with power to gather all of the pertinent facts about production, distribution and prices. Government agencies would have to make all the important decisions affecting production, distribution and prices, and then have power to enforce their decisions.

To do this in peacetime, during a period of ample production, would be quite a different matter from doing it in wartime during a period of shortages. The circumstances requiring wartime controls are quite different from those which obtain normally during peacetime in this country. When there are shortages, someone must decide who will get what there is, and someone must hold the lid on prices. That someone obviously must be the Government. And wartime controls, of course, must continue as long as shortages exist. But the purpose of wartime controls is to direct the supply of commodities into those channels where they are most needed and to prevent runaway inflation.

When ample production replaces scarcity, the necessity for the wartime type of control no longer exists. My point, however, is that if we are to have regulated monopolies as a permanent part of our economy, effective regulation will require detailed governmental supervision of all the major aspects of industry, which will make wartime controls seem minor by comparison. During war, the essential decisions are guided by a single overall criterion. What course is most necessary for the effective prosecution of the war? But in peacetime, there is no such overall criterion to guide governmental agencies in determining how much shall be produced, where it shall be produced, who shall produce it, and all of the intricate problems of distribution and price. We would simply be substituting a regulated economy for a free economy, and it is obvious that such a substitution would work a permanent change in the very structure of Government itself.

In England, where they have no anti-trust laws, they have found it necessary to take drastic action to deal with monopoly. When the Prime Minister of Great Britain was here in November, he said to the Congress:

"There is and always will be scope for enterprise (in England), but when big business gets too powerful so that it becomes monopolistic we hold it not safe to leave it in private hands."

Other countries have followed a similar policy. But our approach has been different. We are trying to leave business in private hands, and we want the principal role of government to be the prevention of private monopolistic interference with the operation of a competitive market.

I am not saying that enforcement of the anti-trust laws will bring a utopia. It is obvious that a lot of other things are needed to create and preserve a free competitive economy. But if we follow a consistent policy of vigorous enforcement, we will help preserve the opportunity to engage in private business. The result will be to help small business and promote economic democracy. In that way we will strengthen our heritage of political democracy.

China Signs Agreement With Export-Import Bank

The Export-Import Bank and the Bank of China have signed an agreement guaranteed by the Government of China establishing a credit of $33 million to make cotton available to the textile industry of China, including both Government and privately operated mills, it was announced on March 19 by Wm. McC. Martin, Jr., Chairman of the Export-Import Bank. Announcement of the orginal authorization for this credit by the Board of Directors of the Bank was previously made on Jan. 17, 1946. In its advices March 19 the Export-Import Bank stated:

"The terms of the credit are in general similar to those established by the Bank for cotton credits to European countries. The rate of interest is 2½%. The maturity of drafts under the credit will be 24 months after arrival of the cotton abroad. This is nine months longer than the European credits because of the longer inland transportation and processing time required by China.

"If the entire amount of the credit is used it is sufficient to provide for the shipment of 275 thousand to 300 thousand bales of cotton. The additional supply of cloth which could be made therefrom would approximate 500 million yards or about one-seventh of China's estimated prewar annual rate of total production.

"This line of credit for China, as has also been the case in other reconstruction credits approved by the Bank, is designed to assist in speeding reconversion to a peacetime basis and hastening the resumption of a sound future trade between China and the United States and other countries."

Cornerstone of Our Domestic Policy

(Continued from page 1689)

ever occupied office in Washington about whom there have been more misconceptions. I do not like strife or bickering or dissension. So devoted am I to peace that I am willing to fight for it.

Labor Management Relations

I do not enjoy clashes between management and labor. They are not in the public interest; therefore, they are not in my interest, and I am selfish enough to be concerned about my own interest, as you ought to regard yours.

I do not believe that all of the turmoil through which we are going and shall go here at home is either necessary or justifiable. I do not believe that either labor or management should take an extreme or irreconcilable position.

I do not know as much about labor disputes as some others and I am aware that I am not an expert in labor relations. However, among my varied experiences during the past 13 years have been dealings in coal, with the coal operators occupying one side of a long table and Mr. John L. Lewis with his supporting mine-workers' officials sitting on the other. It became one of my toughest jobs when President Roosevelt signed an order making me Hard Fuels Administrator. As I presided over that long table, hoping that neither John L. Lewis nor former Senator Burke of Nebraska would charge physically in my direction, I learned that in a labor dispute the ultimate truth generally does not lie with either side. We went through several crises and after the exercise of patience on my part that no one would have believed possible, least of all myself, we always emerged with some kind of an agreement as a result of which we managed to get enough coal out of the ground to fight the war.

I have had greater enjoyments in life than dealing with a hard-boiled bunch of coal operators and an equally tough group of coal miners under the leadership of Mr. Lewis. Come next month when, if the portents may be judged right, the suave and urbane Mr. Lewis will utter the word or give the sign that will close the mines, I shall be glad, and I do not mind saying so, that it will be someone other than I who will be offered up to be ground between the upper and the nether millstones. This is not the least of the favors that, wittingly or not, has been vouchsafed to me.

John L. Lewis and "Free Enterprise"

And while we are on the subject of John L. Lewis, I would like to chide gently those economic illiterates among some of the businessmen of this country, who have been praising Mr. Lewis for his defense of "free enterprise" at the President's labor-management conference or who have been cheering for Mr. Lewis as a selfless patriot for his attacks on price and wage control. Mr. Lewis' approval of "free enterprise" should be considered in the light of the fact that his union has, for all practical purposes, a monopoly on the labor of all of those who mine coal in America. And you, here in New York which just recently suffered from a tugboat strike, have a special reason to know how important coal is, not only to this city, but to the country. Mr. Lewis, in case you do not know it, is regarded by some as the most powerful man in America, and, with the help of those who ought to know better, he is on the way to greater and more uncontrolled power. He assumes that no matter what happens to others in the economic jungle he and his men can get theirs with perhaps something extra for good measure.

But the coal strike, if and when it comes will only be one more in a series of industrial disturbances that have shaken the country and have endangered the stability of our economy. Of themselves they are bad enough but they are more than indications of social unrest; they are, to my mind, warnings that we, all of us—labor, management, and the public—would do well to heed.

Warning Signals

Once before in this decade, we failed, much to our regret, to heed warning signals. When war came in 1941, we were resolutely unprepared. Many refused to admit its possibility even when it became apparent that, if it could be avoided, it would be only by a miracle. Some thought that we could lay the dread apparition by raising a terrific clamor that confused only ourselves. We agitated our rattles and thumped our drums and shouted our incantations with all of the fervor of medicine men intent upon warding off an evil spirit. In short, we were not reasonable human beings regarding the portents in the sky with sober and cool appraisal and upon the basis of experience that had been all too frequent in the past.

It must be said that when we did realize the inevitable we performed prodigiously while brave England paid extravagantly for costly time for us and Russia laid about her with a ferocity and a purpose that surprised no one so much as our military experts and our armchair strategists who knew that Germany would march through Russia as a circus performer jumps through a paper hoop.

For my part, I do not mind admitting that I was apprehensive before the event that a war to the death would break out in Europe and that if we escaped it, it would only be by the grace of God. I felt that we ought to prepare for the desperate contingency of war. President Roosevelt believed this, too, but no political leader can move much faster than the people whom he is supposed to lead and after the famous "quarantine" speech in Chicago even he was quiet under the outbursts of derision and hate that came from all directions. It was clear, according to such temperate and veracious publications as the New York-Chicago-Washington axis newspapers — the New York "News," the Chicago "Tribune," and the Washington "Times-Herald"—that there could be no war involving us.

Unprepared for Peace

War caught us unprepared and now we have peace, thanks not to a single factor but to many which I will leave to the historians to discuss. And if, during peace, we did not prepare for war, neither during war, did we prepare for peace. Even while the war was raging, there were those who ventured to suggest that, in time of war, we should prepare for peace but if anyone listened there was never any indication of it. The bloodthirsty terrorists of the Rhine collapsed and in due course Hirohito decided that he was not a descendant of the Sun Goddess after all and flung up the white flag. So we have peace, peace at least in the sense that our armed forces are no longer engaged either on land or on the sea or in the air, thus proving that America might love her ease and even be soft and slothful but nevertheless, when put to it, can fight as well as anyone and better than most.

We are at peace in this sense but in none other. We do not have a Navy patrolling our shores or airplanes spying out the land, but we do have strikes breaking out in a rash in all parts of the country. We do have capitalists, or industrialists, or management, or whatever one wishes to call them, regarding with set faces and hard eyes workmen who insist that since the cost of living has gone up and since real wages have decreased, there should be wage adjustment upwards. Further, they demand an increase in take-home pay without an increase in prices because they fear, and rightly, that if we should start an upward spiral of prices, inflation would inevitably follow and all of us would suffer economically more greatly than if we should have another war.

Another school of thought is to the effect that we should take off all controls and permit nature to take its course. It is argued that such a procedure would result only in a brief inflationary period, followed by a return to normal. It might be all right to be governed by the law of supply and demand if that law had not been warped and twisted and manipulated out of all semblance to its original pattern, not only by the exigencies, imposed by wartime necessity, but by the pressures of those who regard profits, however obtained, as the chief end of life. We might, at this late date, as reasonably demand a return to the status of Adam as to that of Adam Smith.

Management — I wonder what happened to the wan-looking little orphans and the distressful widows that were the customary stage-props in conflicts between labor and capital of an earlier day—insists that there can be no increase in wages unless prices are raised. Holding tightly to their ledgers, the leaders of industry declare that their profits and their cuts-back from the Treasury are not sufficient themselves to pay more wages; besides which, these profits are no one's business, although I wonder whether, if there were figures in red ink indicating losses, management would not parade them as a beggar his shoes. And so, instead of a clash of arms we are subjected to the daily clamor of contending economic forces, those on one side defiantly saying "you can" and those on the other as strenuously declaiming "we can't." Full page advertisements in the daily press representing opposing views add to the confusion and the noise, as well as to the profits of the publishers.

Foreign Affairs

So far as I am concerned I do not like the appearance of things either here at home or in our relationship with foreign countries. In other words, I am apprehensive both about the present and the future. We showed that we could fight when we had to, but to date we are showing with equal conclusiveness that we don't know what to do with the peace that we have won. And if we cannot get together at home to solve our problems we certainly are not going to be able to do much about the job that we have undertaken to do and that it is our obligation to do in Europe or in the Far East. It is about time that each one of us pointed at himself an interrogatory finger and demanded of himself what he is going to do about establishing a durable and lasting peace both at home and abroad.

We call ourselves a Christian nation and perhaps we are. But it would not do us any harm to reaffirm our Christianity as a living thing and make it more of a guiding star in the future than it is tonight as we sit here in complacent content and wonder why someone else does not undertake the task that it is ours to perform. I have said more than once that all would be well with us and with the world if we lived by that eloquent creed enunciated in the Sermon on the Mount, "Whatsoever ye would than men should do to you, do ye even so to them." We still believe in this in theory, but the plain truth is that we don't put our theory into practice. I am not so sure that many of us are not today living by another creed — a cruel, brutal, cynical creed—"Do others before others can do you."

We could solve our own troubles and contribute to the solution of others that beset the world if we only went about it in the right spirit. The same ethical principles that we invoke for labor should be self-applied by management. The strong, whether management or labor, should scorn to take advantage of the weak.

If men like John L. Lewis, who prefer troubled industrial waters because they can fish expertly in them, conceive the notion that industry and citizens generally should submit to be bludgeoned for the enhancement of personal power, they should be firmly and quickly made to realize that the common welfare is more important than any individual and that we will demand from all a strict compliance with codes of common decency. If the banker or the industrialist should sneer at democracy, and ignore the rights of all people to fair and equitable consideration in the eyes of the law they too should be quickly brought to heel. The same applies to any dictatorial minded Senator who exclaims "To Hades with majority rule."

We are either all citizens of a common country having equal rights, immunities, and protections under the law or we are selfish little pressure groups seeking special rights and privileges at the expense of our fellows. It is high time that we took a good look at ourselves and decided just what sort of citizens we are and just what kind of a country we propose to make of the United States of America.

We Need Leadership

We need leadership—not industrial leadership, or financial leadership, or labor leadership, but moral leadership. This is an idea that is seldom expressed except with conspicuous self-consciousness, and yet it is as true now as it ever has been that an ideal, a moral conception, has greater driving power than anything on earth.

This speech was in final draft form except only for possible last minute corrections when President Truman appealed a week ago tonight at Columbus, Ohio, "for an Isaiah or a St. Paul to reawaken a sick world to its moral responsibilities."

It was gratifying to learn that the President was thinking along the same lines as myself. I am emboldened to support his plea for a "moral and spiritual awakening in the life of the individual and in the councils of the world." I am sure that President Truman realizes that, especially in a democracy, nothing can be acccomplished without leadership. If he will give the nation such leadership as it needs for a "moral and spiritual awakening" the country will follow him with an enthusiasm and a unanimity that will be as gratifying as it will be surprising. More than anyone else, the President has it in his power to furnish moral leadership, not only with respect to legislation and social standards, but in the exercise of his vast appointive powers. He must realize, on the basis of his great experience, that even the best laws will not execute themselves, nor will the highest social standards be self-sustaining. They must be given effect by men of experience, probity and character.

In making his speech before the Federal Council of Churches of Christ in America, President Truman undoubtedly realized that all of history proves that people will endure beyond endurance for an ideal. Hitler knew this. We may not have agreed with the moral ideal that he set before his people and history has proved that it was the wrong moral ideal. But if it had been the right one and ours had been wrong, Hitler would have prevailed and our cities would be lying in ruins today instead of Berlin and Frankfurt and Cologne.

There is more to life than in squeezing the last drop of red ink out of an employer or the last ounce of strength out of a workingman. There is more to life than making profits or building great industries or seeking to evade the law by combinations in restraint of trade. There is more to life than using the power of trade unions for personal profit and aggrandizement rather than for the interests of the workers themselves and of the people.

Our Democratic Way of Life

Let us take a searching look at what we call our "democratic way of life."

Are we really living as free men and women or merely maneuvering cunningly for some advantage at the expense of others? In what regard do we really hold our democratic rights? Do ethical principles mean anything to us? What priority do we give to the public morality and spiritual force? What is the principal consideration of those who are strong and rich—that justice be done to the weaker and those less able to protect themselves—or that they themselves become stronger and richer? Consider the political chicanery that the politicians regard as smart because so many other people also think that it is smart. Is the violation of the moral code or that of the criminal statutes themselves to be condoned because the infraction is in the interest of "the party"? What are political rights worth that are merely recorded on vellum? The vellum may be imperishable but what of the political rights? How about the right that every citizen has to be employed and to live in peace, security, and contentment, subject only to the same rights in others?

Just what is right to vote worth? Our ancestors thought that it was beyond price. It was to achieve political and religious freedom that they came to this continent in disregard of hardships and privations before which men and women of this generation might well quail. How about the rights of those of a different color of skin, who by the device of the poll tax or other questionable method to limit the opportunity to vote are denied a privilege that is more precious to them and more necessary to their happiness and welfare than it is to us? We can get terribly excited in this country about the far removed colonies of European empires and the rights of minorities in lands beyond our control while being indifferent to those of people within our own borders.

America Sorely Ill

I was asked to speak tonight on "Our Domestic Policy" with the option, however, of departing from that subject if I chose. Perhaps some of you may think that I have wandered far afield, but that is not my own view. I *am* talking about our fundamental "domestic policy." Our body politic is like a man with a disease that is likely to prove fatal unless the doctors do something about it. The patient at the same time may have symptoms that denote various ailments that are annoying and even troublesome, but none of which of itself is likely to prove fatal. America today is sorely ill of various disorders to which the body politic is heir. Eruptions on the skin and internal troubles may be both distressing and debilitating. They must be cured and they can be. But, even so, our political system will not be a healthy, well functioning and sturdy organism unless we recognize and undertake promptly to do something to correct the fundamental, and, unless checked, fatal illness that is gnawing away at our vital organs. So it seems to me that our primary, indeed our imperative, domestic policy is to

proceed on the theory that we all accept that a sound mind can be found only in a sound body.

I have been trying to enumerate some of our troubles because I have confidence enough in America to believe that once we know the truth we will proceed to set ourselves free. Certainly you who are here need to have no emphasis placed upon the hurt to our economy and the harm to our establishments that is caused by the labor unrest through which we have been passing. Some of you may feel that labor is largely, if not entirely, to blame. My own view is that, as usual, there is fault on both sides. I shall not attempt to apportion the blame. Each of us should clean his own house before calling attention to the litter of his neighbor.

Our national difficulties could easily be overcome, in fact they would not exist if all of us had a more highly developed moral sense and a greater feeling of responsibility for applying in our own life and in our own industrial relations that axiom laid down in the Sermon on the Mount to which I have already referred and without a more strict adherence to which we are not entitled to claim that we are either a Christian nation or a civilized one.

Need More "Uncommon" Men

We have heard much during the past few years about the "common man." Like all facile phrases, in no time at all, this has come to be little else than a phrase. As a matter of fact, what we need in this country is not more "common men" but more uncommon men—men of faith and integrity of character, who, seeking no special advantages for themselves, but only an equal opportunity under the law, are neither afraid to speak the truth nor hesitate to live by moral principles.

It is not the common men of history who have inched mankind forward on the path toward civilization. It is the uncommon men who have done that—men like Christ and Confucius and Buddha and Mohammed; men like Cromwell, Garibaldi and Bolivar and Washington and Lincoln; men like Milton and Shakespeare and Voltaire and Paine and Jefferson. I insist that while it is both our duty and our privilege to raise ourselves, if necessary by our own boot straps, and make it possible for the common man to become uncommon, nevertheless it is to the latter that we have looked for leadership and must look if we are either to improve the social and intellectual status of the common man or to make secure and advance our civilization.

I am not addressing you tonight as a group of "common men" but as one of uncommon men, either by force of circumstances or by your own efforts who have an especial obligation to see to it that the promises of our Declaration of Independence and the guarantees of our Constitution are more than empty phrases to be taken out of cotton batting in which they are so carefully wrapped to be proudly exhibited annually on the 4th of July.

Equal Opportunity for All

If we are to improve our social standards and our economic status and advance our civilization, we must see to it that every man, woman and child in America is given that equal opportunity under the law that is his, not only legally, but as a matter of natural right. I am not talking about social service or gracious charity. I m talking hard common sense. The economy of our time must contribute to the welfare of increasing numbers of people if it is to survive. Certainly the war years have demonstrated, if any demonstration were necessary, the virtually boundless productivity that is physically and technically possible. I predict that, if we cannot succeed in producing for peaceful purposes as we have shown that we can produce for war, we shall have to contend with revolutionary forces that may be impossible to control. If we want to lead the world as a producing nation, we must find customers for our goods and what better or more acceptable customers could there be than fellow Americans? Give them the education of which they are capable and improve their health standards; make it possible for every man able and willing to work to find a job and the consumptive capacity of the United States would be enormous. The market right here at home for our own goods would surpass all expectations. This is the kind of an economy for which we should strive. This is what I mean when I talk about working together for the common good.

We cannot do this merely by wishful thinking. We can do it only by working at it. Most of all we can do it only by raising a moral standard to which all who aspire to a more satisfctory life may repair.

If we had higher moral standards in our national life, we would need fewer pressure groups, our consuming but unproductive lobbyists could be put to some useful work, and labor and management would not find it so difficult to find a common ground upon which to compose their differences. One trouble with America is that one group does not trust another group and perhaps this is to be expected on the basis of past performance. Some wish to do others so that they may not themselves be undone. They conceive of this as a proper rule of life. But the turgid milling about in Washington of pressure groups and of highly paid lobbyists is not only sickening to contemplate, it is evidence of a degree of moral unhealth that threatens our present and is a danger to our future.

Violation of Law Condoned

This is as good a time as any, in my judgment, to remark that we cannot too sharply criticize individuals and business and labor groups for any lack that they may have of moral standards if they are also lacking in our Administration to the degree that violation of the law is condoned although it may threaten the foundations of our Government. Why, perjury is no longer considered in some quarters, including apparently many newspapers, as even a venial sin. The Attorney General, who ought to be diligent to invoke the penalty of the law for perjury, which is one of the most insidious of crimes, has in effect taken the position that when it sticks up its ugly head in a hearing into the qualifications of a man nominated for high Federal office it relates only to "a political controversy," and apparently, therefore, is to be jovially ignored. All that I can say is that we can call for an Isaiah or a St Paul and insist upon a moral standard without anything coming of our efforts unless we rigidly apply to our own affairs such strict rules of truthfulness that perjury would never dare to show itself.

Atomic Energy

In general, then, I repeat that, supremely, the "Domestic Policy" that ought to give us the greatest concern today is that of doing unto others as we would that others should do unto us. If you want me to be somewhat specific I will say that the Golden Rule ought particularly to be invoked in considering our national policy with respect to atomic energy. So far, with few exceptions, our attitude has been that of befuddled children. In our benighted insistence upon preserving to ourselves alone this agency of cosmic destruction, we are in the way of self-destruction. The armed forces ought to be told in no uncertain terms that since they did not conceive atomic energy nor have anything to do with the fructifying of it, except to perform certain policing functions, they will not be allowed to dictate our foreign and domestic policy with respect to it. No one appreciates more genuinely than do I the great performance of the Army and the Navy in defeating both Germany and Japan, but the United States is a civilian government and should be maintained as such, leaving it to the armed forces when called upon to do so by the civilian administration to perform the duties for which they were created and are being maintained.

Frankly, I have little patience with a government that permits its men in uniform to determine not only questions of domestic, but of high and possibly tragic international policy. This is supposed to be a civilian government. Let us keep it so. I do not like the military penetration into civil affairs that seems to be going on.

The Golden Rule in Domestic Development

If our domestic development and welfare depend upon the policy of give and take, upon not only our willingness but our insistence upon doing "unto others as we would that others should do unto us," certainly it cannot be gainsaid that these principles are controling in the international field. There is only one sure solvent that will cure our industrial troubles and give to all of our citizens the political, social and educational rights to which they are entitled. And there is only one sure solvent upon which we can rely to resolve our difficulties in the international field. It happens that these solvents are identical. Our nation was founded upon them. We were all taught them at our mother's knee. We will either find the road to peace and well-being by the way of mutual forbearance and understanding, with all of us willing both to give and to take, or we will occupy a common grave where we won't even have whatever satisfaction may come from nurturing and giving voice to our dislikes.

I cannot better express the thoughts that are in my mind than to quote from a letter that reached me only recently. It was written by a man whom I do not know and of whom I had never heard, yet what he said seems to me to be as profound and as real as anything that I have heard from the statesmen of today. He wrote:

"As the affairs of our nation, as well as those of all others the world over, continue to race blindly toward a more greedy, more selfish and more destructive future, every expression of clear vision, of a desire to further the common welfare over individual benefits seems to me a light in the darkness. I have only recently returned from more than three years in the Army, with high hopes for realizing all the fine phrases which have been used as a build-up of our national morale at home, and our national prestige abroad I have learned quickly what it is all worth. That is why I am convinced that our present path—nationally as well as internationally, economically as well as morally—must surely lead to a destruction far more complete than mere killing. . . ."

I do not believe that this American soldier is alone in his thinking. I doubt whether his moral disturbance caused by regarding what he has returned to has any connection with the minor issues over which we have no difficulty in working ourselves into a white heat. He is looking—so far in vain—for the assurance and content that comes from the contemplation of a nation marching forward confidently and with determination toward the goal of the greatest good for the greatest number. We dare not, at our peril, dash the hopes that this former American soldier so well expresses.

In the past we have always had time in some fashion to work out our domestic and international problems. If the worst came to the worst, we could have another war with better than an even chance that we would come out on top. There is no such comfortable assurance today. Time is already running on us—fast, too fast. And there will never be another war of the sort that we have known in the past. This time the sole alternative to getting our affairs, both domestic and international, in order is annihilation. We have entered a new and frightening age.

United Kingdom Bankers Call for More Production

Preoccupation with matters of reconstruction together with an undercurrent of moderate optimism is indicated in recent reviews at annual meetings by leading United Kingdom bankers. These views are recorded briefly by the Bank of Montreal in a supplement to the February issue of the bank's monthly business summary.

The bank in calling attention on Feb. 23 to the views of the United Kingdom bankers states that the consensus would seem to be that, while the reconstruction problem of the United Kingdom is a difficult one, it is not insuperable and can be met by an all-out effort to ensure full production. As Rupert E. Beckett, Chairman of the Westminster Bank Limited, put it, "These small islands have felt the strain and pressure (of six years of war) perhaps more than any. . . . Our financial and trade problems have grown to such magnitude that the ordinary methods of stinting and saving would make but little impression on the burdens we carry, however long these methods might be pursued. Such a course, too, would be bound to produce unemployment and keep us in an economic slough of despond for many generations. A new approach—a polisy of expansion rather than contraction—is essential. Expansion demands new capital, with which to set our house in order, and in our present position only one method — that of borrowing — is open to us. . . ."

The Bank of Montreal also observes that Frederic Alan Bates, Chairman of Martins Bank Limited, also called for stimulation of the country's productivity and a revival of international commerce; and expressed the same warning that a program of austerity could be carried to the point where it might defeat its own ends. Likewise, the bank said, the Marquess of Linlithgow, Chairman of the Midland Bank Limited, noted a growing part being played by the state in the economic life of the nation, but said that "private enterprise has still a wide field of operation." He expressed satisfaction at a continuing exchange of ideas and information between Government departments and representatives of private business, and added that "in consultation and collaboration, on terms of mutual confidence and trust, is to be found the way to more effective use of the nation's assets for the general good." Edwin Fisher, Chairman of Barclays Bank Limited, also displayed a feeling that an austerity program could be caried too far, and called for greater production.

Mr. Fisher saw the maintenance of saving at high levels as a powerful means of holding inflation at bay; while Colin F. Campbell, Chairman of the National Provincial Bank Ltd., described an adequate supply of all goods in the home market as the surest protection against inflation as well as protection against black markets and other exploitation. Mr. Fisher called for taxation relief as a prerequisite to progress.

To quote further from the extracts given in the Bank of Montreal Supplement:

On the subject of international financial arrangements, Lord Balfour of Burleigh, Chairman of Lloyds Bank Ltd., felt that in the agreement with the United States "the financial burden we have been asked to assume is disproportionately onerous and the period within which current sterling receipts are to become freely convertible is dangerously short." He believed, however, that the Bretton Woods Agreement should be cordially welcomed as "the first international attempt in history to secure stable exchange in the interest of international trade other than by the old rigid gold standard." He welcomed also the American proposals for consideration at the conference on trade and unemployment; and said that —despite some disappointment in the U. S. A. agreement — together, the financial agreement with the U. S., the Bretton Woods agreement and the American Proposals on trade and unemployment held out hope and promise for the future.

Mr. Beckett, Chairman of the Westmnster Bank Limited, said he had become prepared to accept the view that there was no alternative to the loan from the U. S. A. "Our pressing need—apart from other considerations—dictates our turning to America in the present bare state of our factory and larder," he concluded, after discusing the possibilities and limitations of arrangements within the Commonwealth.

Mr. Campbell discussed the change of government in Britain, and said that he did not anticipate that the proposed nationalization of the Bank of England would affect the normal day-to-day working of the Joint Stock Banks. Mr. Beckett, however, noted that the bill to nationalize the Bank of England includes a provision to direct the policy of the commercial banks; and said he could foresee difficulties between banker and customer in the future "unless great care and restraint are used in the exercise of these powers." He felt that the government should first have concerned itself with the progress and development of industry, "with such a radical change as nationalization of some of our basic industries inaugurated only gradually and as circumstances proved themselves propitious." Lord Balfour said he did not expect "any particularly good results" from the Bank of England bill, adding that "whether the introduction of a certain rigidity where formerly there was flexibility will do harm, the future alone can show."

The Marquess of Linlithgow and Mr. Fisher both made mention of the fact that a reduction of interest rates allowed on customers' balances had been made necessary by a reduction in the rate on Treasury deposit receipts.

Of special interest to Canadians, with their own flexible banking system, were the remarks of the Marquess of Linlithgow about the adaptability of the present financial system in the United Kingdom. After reviewing the changes in the system to meet changing conditions, the Marquess said:

"In all this kind of thing the banker is looking beyond balance sheets, technical borrowing arrangements and the figures on a customer's acount to the reality of economic effort and achievement that lies behind them—the mill, the factory, the farm and the shop, all operated by human beings with their individual capacities, ambitions, joys and tribulations."

Economic Reconstruction Abroad

(Continued from page 1690)

ticipated. The Committee for Economic Development last week stated that reconversion of American industry to peacetime production is so far ahead of schedule, only five months after V-J Day, that 52,000,000 workers are now employed in civilian jobs, only 2,000,000 are unemployed, while hundreds of thousands of jobs are still unfilled. It was reported that production and employment are now at the highest peacetime level in history and reconversion is 90% complete in many parts of the country.

Credit for this achievement is due, to a large extent, to advance planning by business, Congress, and other groups. Two years before the end of the war businessmen and others were stating that among the essentials for a speedy reconversion were (1) legislation to facilitate both termination of war contracts and removal of Government-owned property so that manufacturers could reconvert without delay; (2) legislation for disposal of surplus property; (3) repeal of the Excess Profits Tax so that business would have an incentive to expand. Congress passed contract termination legislation almost a year in advance of the end of the war and an outstanding record has been achieved in the prompt settlement of contracts. The Excess Profits Tax was repealed four months after V-J Day, legislation for the disposal of surplus property was passed a year in advance but this has not been entirely satisfactory. Legislation was also passed a year in advance establishing the Office of War Mobilization and Reconversion to coordinate the various governmental agencies concerned with reconversion.

Much credit, therefore, must be given to Congress for enacting this legislation well in advance. At the same time, credit must be given also to the many business organizations which stimulated employers to plan for reconversion and postwar expansion.

The Colmer Committee has been active in advising Congress and sponsoring legislation on those and other reconversion problems. It has issued a number of reports, among which was one issued last May on the Postwar Foreign Economic Policy of the United States. It recommended a number of basic principles to underly our postwar foreign trade. Many favorable comments were received on the report and the recommendations were widely endorsed by editorials and by men both in government and in business.

Importance of Foreign Trade

This report pointed out that while foreign trade represents only about 7% of our national income, it provides us with many essential products and affords an important market for many agricultural and manufactured products. It stressed that a high level of employment and output at home is an essential requirement for expanded world trade. To quote from the report:

"It is the committee's view that foreign trade can contribute most to the peace and prosperity of both the United States and the rest of the world if it is based upon the principle of balanced expansion. This means that the enormous capacity of our country to produce, to consume, and to save must result, in the postwar period, in extensive exports, extensive imports, and extensive foreign investments. . . .

"After the war, extensive foreign investments by the United States will have important benefits both to the United States and to the rest of the world. The scarcity of capital in undeveloped regions and in countries devastated by the war will provide a large opportunity for American investments. If loans are made on a productive basis, both the lending nation and the borrowing nations will benefit from the resulting industrial expansion. The United States will benefit from the stimulus which foreign loans and investments provide for exports, and from the returns which we will later receive on our foreign investments. Other countries will benefit from an increase in their productivity made possible by more rapid industrial development. At the same time, the resulting diversification of their economies will make them less sensitive to changes in the world demand for particular commodities. . . .

"Past experience provides no support for the view that industrialization of the rest of the world will destroy our export markets. We may expect, rather, that as the incomes of other countries are increased by development programs, our exports to these countries will likewise increase.

"As a means of relaxing restrictions upon trade throughout the world, the committee believes that an international conference should be called as soon as practicable, to establish a general policy of reducing barriers. The immediate establishment of such a policy would be of enormous assistance to businessmen both at home and abroad in making postwar plans. The conference should consider not only reduction of tariffs, but also such trade controls as import quotas, export subsidies, exchange controls, and other forms of State interference with the movement of goods between countries. . . ."

In order to determine to what extent these principles could be applied at this time, seven members of the Committee visited Europe this fall. The Committee, accompanied by the staff director; Dr. W. Y. Elliott, of Harvard, former Vice-Chairman of the War Production Board; and Mr. Farriss, of the State Department, spent eight weeks in Europe and the Middle East. The principal countries were visited and conferences were held with our ambassadors and the staffs of the embassies, with the finance and production ministers of each country, and with businessmen. In some cases conferences were held with the heads of the governments, including Prime Minister Attlee and Generalissimo Stalin. The Committee held long discussions on the German economic situation with General Eisenhower, General Clay and members of their staffs. The Committee upon its return submitted a report on its findings to Congress. Copies of this report are available upon request.

I will attempt to summarize the conditions which we found and some of the conclusions at which the Committee arrived, with particular reference to the part which this country should play in the rehabilitation of Europe.

Immediate Problems in Europe

Due to the exhaustion and destruction resulting from the war, conditions are far from normal and there are many obstacles to the resumption of full economic life. There is a great lack of consumer goods in practically all countries in Europe. Millions of people in the liberated and occupied countries are inadequately housed, inadequately clothed and without sufficient fuel to face the winter. The financial structures are strained and there are inflationary trends in several countries. Black markets and barter are looked upon as normal conditions of trade, and so are barter between countries, bilateral trade, quotas, import restrictions, etc.

Transportation—The disruption of the whole transportation system in the liberated and the occupied countries is probably the most serious factor delaying recovery. The transportation system was functioning considerably below 50% of normal in the summer but the situation is improving. Even where there are adequate supplies of food in the farming areas of a country, lack of transportation prevents this food from being carried to the cities, with the result that the people in the large cities have inadequate rations. Coal production, while considerably below normal, is ahead of the possibility of transportation during the immediate future. This disruption applies not only to railroads but to waterways and coastal shipping. The highways are in better shape but there is a great shortage of motor transport.

Progress is being made in most countries in restoring damage to the railroads but there is a shortage of rolling stock.

Fuel and Raw Materials—Next to transportation, the shortage of coal and raw materials is the greatest obstacle to the resumption of industrial production. France, Belgium, Luxemburg and Holland are all dependent upon the Ruhr and the Saar areas for coal. German Silesia, which is now in Poland, and Czechoslovakia also furnish coal to other parts of Europe. The coal production in all these sections is far below normal, due to lack of manpower and to transportation difficulties. The coal production in England is also way short of the needs. Efforts are being made to increase the production in these countries but production is rising at a slow rate. It will probably be necessary to continue to send coal from this country this year to assist industry until their coal production can be increased further.

Until industry can be started, unemployment and the lack of production will impose many burdens on the financial structure of each country and increase the need for relief. Production of consumer goods, so badly needed to avoid inflation and to reduce the need for relief, depends upon the rapid availability of coal and basic raw materials, such as cotton, wool, minerals, and lumber.

Individual Countries — While this represents the situation in general in Europe, the conditions vary considerably, of course, in the different countries. In Greece, for instance, need for relief is great. UNRRA is doing a good job there and without it many thousands would die this winter. Inflation has already gone the whole way in Greece and a new currency established. It will be some time before conditions will be normal in that country.

In Italy relief is also necessary and there is an inflationary trend at present. Its industry, however, is about 80% intact and the indications are that, if the country could be assisted in obtaining raw materials, Italy could within a reasonable time resume production on a scale which would prevent the necessity for further relief. The procurement of a relatively limited amount of raw materials, such as coal and cotton, for example, would go far toward supplying the Italian population not only with the necessary imports but with means of payment by the laborers in Italy for the goods they need.

France is relatively better off than most of the other liberated countries. The food situation for the total of France is only about 15% below normal but, as in the other countries, there is insufficient food in the cities. There is great shortage of consumer goods in France; there is an active black market and prices are very high. Lack of fuel and raw materials are holding back the industrial recovery. With efforts now being made to increase production and with the assistance of loans which have already been granted, it is expected that in a comparatively short time France will be well on the way to industrial recovery. Good progress has been made since we were there last fall; the devaluation of the franc last month being an important step. France has always been more nearly self-contained than most of the countries in Europe. It still has large holdings abroad of gold and investments.

Belgium has probably made greater progress toward recovery than any other country in Europe. Its industry was not badly damaged; the financial situation is sound and the Government officials are capable. Coal and transportation are the factors which are now holding back recovery. As soon as more coal can be obtained, its industry and foreign trade should be able to return rapidly to normal. Loans have been very helpful in bringing about this recovery.

Business has been very active in Sweden during the war. Its standard of living is the highest in Europe. The country has always been an important factor in foreign trade and its businessmen are now keenly interested in developing the postwar trade. The financial structure is sound and the governmental officials and businessmen very able.

The three countries which present the principal problems in the economic recovery of Europe are England, Russia, and Germany.

United Kingdom—The Committee met the principal ministers, including the Prime Minister, and were quite favorably impressed with the ability of these men and with their moderate views. The Labor Party includes not only workers but many other groups such as the salaried groups, college professors, and even businessmen. The Government leaders are very much concerned with the difficult problems which England faces in the postwar world. They probably will use different methods than we would use in this country, but we should realize that their economic conditions are quite different. Their standard of living is lower than ours and industry on the whole is not as efficient as it is in this country.

New machinery was not provided for industry during the war to the extent that it was in this country and large sums will be needed for new machinery and to modernize their industry. The housing situation is very critical. Over 3,000,000 houses were damaged during the war, 300,000 beyond repair; there has been no building whatever in six years.

It is well known that England before the war had an unfavorable balance of trade but this was met by income received from overseas investments, income for shipping, insurance, and other services. During the war she was forced to sell a substantial portion of her investments and she also incurred debts in the form of blocked Sterling to the extent of fourteen billion dollars. Her income from shipping and the other services also has been greatly reduced. Thus, even if her export-import trade showed no change from prewar, she would face a much greater deficit. In addition, she must purchase machinery and capital goods to rehabilitate and modernize her industry. They are, therefore, making a great effort to increase their exports by 50%-75% over prewar levels, to cut down on all imports except essentials and to hold down the consumption of goods at home.

This country is vitally interested in the Britain situation because in the past our trade with Great Britain has been greater than with any other nation. Anything which this country can do to facilitate recovery in England will lead to more trade between the two countries and will promote world stability and recovery. This country could contribute toward the recovery of England and of world trade in general by advancing long-term loans to Great Britain, but as the Colmer Committee points out in its report there should be assurances given that steps would be taken by Britain to remove restrictions on trade within the Sterling areas, and to remove tariff preferences, quotas and exchange controls, and other restrictions against the flow of trade. This probably will involve a scaling down and refunding of long-term obligations of large Sterling debts which England now owes to many of the countries in the Sterling bloc.

Under the agreement recently negotiated in connection with the proposed loan, Great Britain agrees to most of these conditions.

Russia—As the Colmer Committee has stated in its report, there would seem to be real economic opportunity for extensive trade between the United States and Russia. The Committee was informed that Russia needs immediately and during the next few years a wide variety of goods produced in this country, such as locomotives, rolling stock, transportation equipment of all kinds, machine tools, construction equipment and many other types of capital goods. On the other hand, Russia can supply this country with minerals such as magnesium, chromium, asbestos, platinum, and timber and various wood products, furs and caviar.

There has been tremendous destruction in Russia and at least 40% of industrial capacity in Russia was at one time under German domination. The coal mines in the Don Basin were largely wrecked and the industrial area around Stalingrad was reduced to ruins. This destruction, together with the loss of millions of men and the effects of the scorched earth policy on their farm lands, have reduced the standard of living of the people considerably below the level, which was never high, of prewar Russia.

Rapid progress has been made in reconversion in Russia. The most authoritative estimates are contained in a recent article in the "Saturday Evening Post," by Edgar Snow. He states that 1945-46 agricultural production is estimated at 80% of the 1940 level, that coal production in the Don Basin has recovered to 50% of the prewar figure, and that of the country as a whole is about equal to 1940; steel production this year is estimated at 80% of the prewar level.

The Committee points out in its report that whether the possibility of expansion of trade with Russia can be realized for the benefit of both countries depends not only on the possibility of Russia obtaining productive loans from the United States but upon the full cooperation of the two countries in working out the conditions for repayment of loans and working together on equal terms. The Committee thought that the granting of loans should be dependent upon the clarification of the several points: (1) the full and frank disclosure of Russian production statistics and an opportunity to scrutinize the facts upon which they are based, and of the proportion of Russian production will continue to be devoted to armament; (2) the disclosure of terms of the trade treaties made with eastern European countries under their control; (3) opportunity for businessmen and journalists to travel more freely within Russia and right of entry of planes into Russia; (4) the protection of American property rights and the right to distribute papers, books, etc., in the countries in Eastern Europe under its control. Another factor which must be considered is how much gold this country

would be willing to take in payment of loans.

Reconstruction in Germany—To quote from the Colmer Committee report:

"The reconstruction of Germany is basic to the recovery of other European countries and through it, world recovery. . . . The Committee was in full agreement that the destruction of Germany as a war-making country had been achieved from what it saw of the unbelievable ruin created in the German cities and centers of production."

The committee was informed that all the major cities in Germany had been largely destroyed and there are only two cities which escaped with less than 50% destruction of housing. The conditions in most of the cities are very bad, especially in respect to food and housing. Production is only about 15% of normal and progress toward improvement is very slow.

While a considerable part of the machinery in Germany was not completely destroyed, steps are being taken to remove the war-making industries. As long as the control of Germany continues and the destruction of the war-making industries is thoroughly carried out, as is now being done, there is no possibility of Germany's becoming a danger to the peace of the world. Everyone is agreed that this control should be continued. The Committee pointed out that the only foreseeable danger that Germany presents is that she might become a source of infection for the health and economic and social life of all Europe if the cities in Germany are not maintained on a minimum basis of health for the population.

I would like to quote from the Committee's report its conclusion regarding Germany:

"In the judgment of the Committee, a complete stopping of Germany's productive capacity in any zone will impose a severe burden upon the rest of Germany to maintain sufficient production of a peacetime character to prevent widespread disease and unrest in Germany and, as a consequence, in the rest of Europe. The Allied Nations have undertaken the responsibility to prevent serious unrest in their occupied zones. Failure in any respect to meet this responsibility increases and prolongs the necessity for large numbers of American occupying forces beyond normal needs.

"The Committee is convinced that to strip Germany of the factories necessary for the ordinary industries of Germany would be to impose a burden of relief on the western powers principally the United States, if widespread starvation and dangerous conditions to the public health are to be avoided in all Europe.

"Germany before the war was the most important industrial country of Europe and the largest importer as well as exporter on the Continent. The industries of countries surrounding Germany depended in large measure on Germany for parts, machine tools, and components, as well as on her coal, potash and other fertilizers. To destroy these basic German industries would be to immobilize many other industries dependent upon them.

"The simplest analysis shows the dependence of the industries of all the other countries surrounding Germany upon German raw materials and German manufactures. To go beyond the limits of destroying the war-making power of Germany is to depress the whole standard of living of Europe and, through it, of world recovery. It follows, of course, that our own foreign trade with Europe would suffer in proportion."

The Committee quoted General Eisenhower as saying: "We want a lean Germany but not a hungry Germany. A hungry people is a dangerous people."

Thus the picture in Europe is not a very bright one. Progress, however, is being made toward recovery in most countries. Assistance in the form of relief and productive loans are needed from the United States. There is no question about the need for relief in the liberated areas and other countries, such as Italy and Austria for which UNRRA is responsible for relief, until industry can be revived and food and clothing becomes available. Much of the surplus property which we now have in Europe is being used for relief purposes, as part of this country's contribution to UNRRA.

Loans — While recognizing the need for immediate relief, the Colmer Committee points out further that the need can be better met by productive loans to enable the countries to begin to manufacture and to exchange the goods needed to support their own populations. As long as the resumption of industry is held back, the need for relief continues because there is no purchasing power placed in the hands of individuals and no means for satisfying the needs of those individuals with consumer goods. The spiral of inflation which this scarcity economy sets in leads to the need for continued relief. The problem of setting up sound banking institutions under these conditions presents grave difficulties. The essential, however, is to resume production of consumer goods and goods for export. Under these conditions the Committee feels that productive loans could be justified to break bottlenecks through the financing of raw-material purchases, transportation equipment and fuel.

Such loans have already been granted by the Export-Import Bank and others are being considered. These should be of considerable assistance.

Private loans by banks or two or three year credits by business concerns would be justified in some cases. Perhaps some of the Export-Import Bank loans could be made on a participating basis with commercial banks.

There will also be need for longer-term loans to assist the general reconstruction and recovery. As far as governmental loans are concerned—and these will be the predominant type for the first few years—the Committee feels that they should be conditioned upon the willinginess of the countries to reduce trade barriers and restrictions. Later many of these loans will be made by the International Bank to be set up under the Bretton Woods agreement. As soon as international affairs become more stable, private lending should again become an important factor.

Many people raise the question as to how these loans are to be repaid. In the long run they must be paid by increased imports into this country, by increased services performed by other countries, or by gold. The principal item, of course, must be imports. It should be realized, however that if we obtain the higher level of production and employment at which we are aiming in this country or maintain the level already achieved, there automatically will be a considerable increase in imports. It must be realized also that if this country is to maintain its position as the leading creditor nation, the total amount of our investments abroad will probably increase, as it did in England during the century before the war. While individual loans will be repaid, the total outstanding probably will increase. Thus we will be concerned only with the payment of carrying charges on the loans. As this will be a gradual increase, the difficulty of accepting imports is not as great as many people assume.

* * *

Conclusion

Productive loans (and I want to stress *productive)* made on a sound, cooperative basis will greatly facilitate the resumption of production and trade in Europe so that further relief will not be necessary. At the same time, these loans can go far toward removing the barriers which now exist against trade, and thus assist in the expansion of foreign trade. Not only would this country benefit economically from an expansion of foreign trade, but the removal of trade barriers and the expansion of trade between countries will contribute greatly toward a stable and enduring peace.

Scrap the Present Crazy-Quilt Stabilization

(Continued from page 1688)

regain the road to postwar recovery with the least possible delay.

Danger of Regimented Economy

The big danger we face is the establishment of a permanent economy in our country regulated and regimented from beginning to end by the Federal Government. That is a step toward totalitarianism. When freedom of enterprise for labor and for business is wiped out by Government, every other freedom enjoyed by the people stands in jeopardy.

Let us concede that the growth of Government encroachment upon the economic freedom of our people began with the war. That was inevitable. But it did not end with the war. That could have been avoided — and it must be stopped!

I am convinced that President Truman approached the nation's postwar problems in the right spirit and with every determination to restore a normal economy as promptly as the necessary changes could be safely effected. He told me so. I believed him and I still believe in his sincerity. But the tragic truth is that he received and listened to the wrong advice.

Consider what happened in the field of labor-management relations. When the trade union movement sought to cushion the shock of reconversion after V-J Day by negotiating increases in wage rates for the nation's workers to make up for the loss in take-home pay due to reduction of working hours and elimination of overtime, the President summoned a Labor-Management Conference in Washington to recommend methods by which such programs could be settled peacefully and without undue delay.

The conference deliberated several weeks and arrived at certain constructive conclusions. Its two major recommendations were:

1. That collective bargaining should be universally adopted as the only practical method of settling labor-management disputes in a satisfactory way.

2. That when collective bargaining failed to bring about agreement, labor and management should be willing to submit issues left in dispute to voluntary arbitration.

This expression of the Management-Labor Conference reflects the economic philosophy originated, advocated and practised by the American Federation of Labor. It emphasizes freedom of action on the part of free working men and women who have organized themselves into free, democratic unions. Its chief objective is the elimination of compulsory arbitration and of Government intervention or domination in collective bargaining and wage standards. These findings fail to satisfy certain elements who not only favor, but rely upon, Government intervention in the fixing of wage standards. They seem to fail to grasp the fact that if Government can give, it can also take away.

Labor has fought from the beginning for the enjoyment of the right to organize into free, democratic unions and to bargain collectively on equal terms with employers. It cannot afford to compromise upon these fundamental principles. Through its steadfast devotion to this line of procedure, organized labor has established itself as a vital force in the economic and industrial life of the nation. It has mobilized its economic strength and through the exercise of its power, strength and influence has served to promote the economic and social welfare of the working men and women of our country.

We cannot accept a regimented economic philosophy formulated and imposed upon the workers by the Government. Instead, we insist and demand that labor shall be accorded the right to form its own unions, to consolidate and utilize its resources and its economic strength in conformity with democratic principles and procedure. Freedom and liberty are just as essential to the welfare of the workers as the Four Freedoms are to all the people of our own country and all others throughout the world.

President Listened to Incompetent Advisers

It is universally recognized that President Truman has been under severe pressure. However, he could have insisted that all labor disputes be settled by collective bargaining and voluntary arbitration without Government intervention. Instead, he listened to incompetent advisers who concocted a magic formula for him—another "easy" way out. This formula called for the settlement of labor-management disputes by Government fact-finding boards and for the imposition of compulsory cooling-off periods. The American Federation of Labor promptly announced its opposition to any such invasion of labor's fundamental right to strike and the inauguration of compulsory arbitration by Government—which is what the fact-finding procedure amounted to. Industry rebelled against inspection of its books and investigation of its profits by fact-finding boards. Without waiting for specific Congressional authorization, the President appointed a few experimental fact-finding boards and their utter failure in practice persuaded Congress to reject the President's recommendation for the enactment of Fact-Finding Board legislation.

Because of these upsetting developments, the President and his advisers erroneously decided to re-establish war emergency control over wages and collective bargaining. This, in my opinion, was a grave mistake. Following the lifting of war emergency restrictions upon collective bargaining after V-J Day, the representatives of millions of workers made definite progress in the settlement of wage scales and wage standards through genuine unrestricted collective bargaining. This progress was abruptly terminated as a result of the announcement of a new stabilization policy on the part of the Government.

The New Stabilization Policy

Under the new stabilization policy, a formula for wages has been set up similar in principle to the "Little Steel" formula and Government agencies must pass upon wage agreements before they can be applied and accepted. Workers still remember how they resented the restrictions placed upon collective bargaining and those who participated in collective bargaining through the establishment, maintenance and application of the "Little Steel" formula. They protest against the application of the principle of a wage formula particularly now when the war emergency period has passed. The new stabilization policy places labor in an inescapable Government straitjacket by requiring prior approval from the Wage Stabilization Board of any wage increase which will be used by an employer as a basis for application for higher price ceilings.

It was indeed unfortunate that certain influences caused the Administration to barter and bargain at the expense of the consuming public, including the wage earners, at a critical period in the economic life of the nation. The net result of it all is to subject millions of wage earners to the danger of inflation. Increases in wages mean nothing to wage earners if prices are to soar and the cost of living constantly mount. History records that prices increase more rapidly than wages. Such a policy is economically unsound. It is inflationary in principle and wage earners pay more heavily than any other class of people when uncontrolled inflation prevails.

Upholds a Free Economy

I am confident that time and experience will prove the soundness and validity of a free economy as compared wtih a controlled, regimented economy. The stabilization policy originated by the Administration and inaugurated by Government decree does not square with the American way of life. It is in contradiction to the basic principles upon which our democratic form of government rests. We must unite in defense of the principles of freedom, liberty and democracy and in the preservation of a free economy, free democratic unions, freedom to bargain collectively without Government interference or domination, and freedom to exercise those inherent rights conferred upon us by the Constitution of the Untied States. We realize that all these rights will be impaired if not destroyed if the nation becomes permanently subjected to a regimented economy.

At the moment neither labor nor industry know where they stand nor where they are heading in the future. Employers are afraid to make commitments for fear of disaster. Production is stalled. Reactionary elements in Congress are taking advantge of the opportunity to attempt to wreck the entire system of price control. Powerful inflation lobbies are aiding and abetting this move. In addition, they are backing Congressional attempts to enact the worst anti-labor legislation ever proposed in Washington.

How can these dangerous trends be halted? How can we restore sane and sensible conditions which will be clear to all and encouraging to all?

I propose, first, that the present crazy-quilt stabilibzation program be scrapped and that the President invite representatives of labor, industry and agriculture to confer with him on the drafting of an entirely new one which will be fair and just to the entire nation.

Secondly, I recommend that this new policy be adopted for the duration of not more than one year, with the unequivocal commitment that at the expiration of that time all Government controls on wages and prices be dropped.

Finally, I urge with all the emphasis at my command that the Government eliminate itself from the sphere of labor-management relations except for offering a strengthened Conciliation Service to both parties and allow labor and industry to work out their problems through the proper methods of collective bargaining and voluntary arbitration.

In my opinion, even our great country cannot indefinitely sustain the strain of living from one emergency to the next without relief. We must set ourselves a reasonable deadline to get back to a normal basis and meet that deadline. The American Federation of Labor will do its utmost to help achieve that goal in the interests of preserving the American way of life for the American people.

Trade Conditions in Great Britain

(Continued from page 1687)

problems as those encountered in the United States, but with a difference of degree, most of which may be attributed to the fact that British industry converted more completely to war-time operations than was the case in the United States. The American war production, it must be remembered, was in effect super-imposed on the economy, and to a large extent it represented new facilities organized for the purpose, while production of consumer goods was maintained at practically normal levels. In Britain the war effort was maintained at the cost of reducing consumption, to the extent of about one-third, production facilities for consumer goods were robbed of factory space, of machines, or manpower. To get them back into production is thus a more serious task than that which we are facing in this country today.

Manpower is a field in which British industry encounters particularly serious difficulties in reorganizing for peace. The British nation was mobilized for war to a maximum, to a greater extent than any other belligerent, with nearly 12% of its population mustered in the Armed Forces, with every able-bodied man and woman directed to some essential occupation. With the youth of the nation in uniform for the most part, recruiting of young workers for industry practically ceased, and output was maintained by compelling workers to remain on the job and by recruiting temporary war-time labor. With the end of the war the temporary and the superannuated workers have left the factories, and there is a five-year gap in the recruiting of replacements which leaves the factories shorthanded even by war-time standards. Demobilization is under way, of course, although at a slower pace than in the United States, but the release of men from military service does not immediately solve the problem of manpower in industry. Some go back to their old jobs, but that five-year gap in recruitment prevents the younger age-groups from sorting themselves out automatically into occupations for which they are trained. In general, also, the British population is clearly tired by the strain of a long war, many workers want a rest before anything else, and to some extent and for considerable periods they won't work at all. That is a phase, of course, and it won't persist for long, but it is nevertheless an immeidate factor.

The net result of all these factors is that in some key industries the recruitment of labor through demobilization has barely kept pace with losses from superannuation or other causes, especially in industries where wage and working conditions are not particularly attractive. Productivity has thus been limited by shortage of manpower, more than anything else, and in many industries it is even now below war-time levels rather than showing signs of recovery. At a time when there is a vast pent-up demand among the people of Britain for the bare essentials of a decent standard of living this limitation of productivity, this tardy rate of reconversion to full peace-time output, is a serious matter.

Another reconversion problem confronting British industry is the rehabilitation of the country's capital equipment—the restoration to full efficiency of the constructions and the machines worn out by years of maximum production with maintenance reduced to a minimum by the pressures of urgent war production. Obsolescence is a part of this, also, since there was no time during the war years to keep equipment fully modernized, and there is a gap of five years or so to fill in this respect. This means that heavy investment in new and better equipment will be required of many British industries if they are to produce efficiently in the future. More important from the British view is the time which will be required to produce, to install and to organize such equipment, in a period when speedy recovery of industrial production is vital.

Taking into acount these and other factors in the situation, most observers agree that reconversion in British industry is proceeding at a slower pace and is relatively handicapped as compared with that of the United States. Nevertheless the problem is being attacked with vigor by Government and by industry, and as yet it has not been hampered by any serious outbreak of labor strife.

Foreign Trade

Reconversion is of vital importance to Great Britain, not only to relieve the immediate distress of the population, but also to restore a foreign trade position essential to British economic health. So much has been written and said on this subject that I hestitate to repeat it, but it is essential to a comprehension of the British problem to realize that Britain must export to live. The country has no natural resources of importance other than coal and salt, which are basic to her steel and chemical industries, the great bulk of raw materials required for British factories must be imported, and a large fraction of the food required to support existence also comes from abroad. In the past these imports have been paid for in part by the returns from investments, in part by the sale of such British services as banking, insurance, shipping, in part by the export of the products of British labor applied to imported raw materials.

At the present time all of these resources are deficient. Disinvestment abroad during the war was was heavy, returns from British services await a revival of world trade, and British exports currently represent a figure barely half that of 1938. It is generally agreed, taking into account war-time losses of foreign investments and other factors, that the minimum target for the development of British exports in the post-war period, if Britain is to pay for her necessary imports, must be an increase of 75% in value over their 1938 level. There is no immediate prospect of attaining this, of course, with reconversion proceeding slowly, with domestic consumption requirements demanding a share in production.

British manufacturers have no lack of orders abroad for their products, and in many cases the order books assure maximum operations for two or three years ahead, just as they do in this country. Pent-up world demand for industrial production has now reached unprecedented heights; it is no problem to sell goods, the problem is to produce them.

Against this background it is current British commercial policy to give the export trade the green light in every situation where there is a choice. The export industries are favored in the allocation of raw materials, in the assignment of factory space, in the direction of labor. For many industries the Board of Trade even specifies the percentage of output which must be exported, enforcing that requirement by the control over raw materials. Goods are also forced into export by the maintenance of high purchase taxes to discourage domestic consumption. This policy means that the British public will have to go without many things for a long period to come, and is still condemned to relative austerity until the balance of payments problem is relieved materially.

Balance of Payments

The aftermath of war leaves Britain with one serious balance of payments problem in the form of some $12 billion in blocked sterling obligations to other countries, arising for the most part from British expenditures in India, Egypt and other countries where military operations were conducted or war-time supplies purchased. To some extent these are balances which normally need never be redeemed, to some extent they may be funded, and I would hate to guess what proportion will eventually have to be cleared. The fact remains, however, that it is a very large sum, which Britain literally cannot repay except by exports of goods and services to debtor countries. Some American observers view this situation with alarm, suggesting that it gives Britain an overwhelming commercial advantage in countries anxious to clear their blocked balances, as a result of which they may force their nationals to buy British. From the British viewpoint, however, these balances are more of an embarrassment than anything else, since exports to liquidate them will yield Britain nothing in the way of free exchange with which to purchase her own requirements on the world market. To whatever extent she can do so, therefore, Britain will surely endeavor to relieve herself of a good part of this burden by other means than exports.

Another serious balance of payments problem is the perennial one of dollar shortages abroad, about which much has been written in recent years. In order to maintain her economy Britain must acquire dollars by one means or another, since she must purchase in the United States and Canada such indispensables as cotton, tobacco, steel, lumber products, the machinery with which to rehabilitate her industry, the food to support her population. It is not the normal pattern for Britain to acquire dollars simply and directly by exports to the United States and Canada, since such trade is necessarily adverse, there being no sufficient volume of British goods able to compete on the American market. The only means by which Britain can acquire sufficient dollars for her needs, therefore, is through the mechanisms of multilateral trade, whereby free exchange will flow to her from countries which sell to the United States. It is to the British interest, therefore, to work toward the freest possible multilateral trade, toward reduction of trade barriers, and toward full employment throughout the world. In this matter British interests and American commercial policy see eye to eye.

Pending realization of this, however, and it sems to be some distance away, Britain must do everything possible to conserve her scanty dollar resources. There is practically no reserve of such exchange available to the Bank of England, since British dollar resources are calculated at barely $2 billion, which can be regarded as only a working balance with which to maintain sterling-dollar convertibility—it is only about half the figure once regarded as prudent. Until more dollars flow in through a rising volume of world trade, therefore, we must expect Britain to continue her war-time policies of restricting imports which have to be paid for in dollars, limiting them to items which are essential to the maintenance of the British economy. At present that definition of what is essential barely extends beyond basic foodstuffs, necessary raw materials, and important items of capital equipment. There is no place in the British economy at present for imports of consumer goods, no matter how much the population of the British Isles would welcome a large volume of such goods.

The recently negotiated credit to Britain of $3.75 billion, now under consideration by Congress, was calculated carefully to represent the probable deficit of the British balance of payments in dollars over the next few years of transition, taking into account British requirements for essential imports and probable rate of improvement in British exports and dollar earnings. This does not mean that $3.75 billion will immediately become available for British expenditures in the United States. Those expenditures will be spread over a period of years, they will be carefully husbanded in any case. No immediate change in the prospects for imports of American goods into the United Kingdom can be anticipated, therefore. The import restrictions will necessarily continue, and they will continue to limit imports to essentials. As time goes on, however, and as British exports recover, we can expect the definition of essential to broaden somewhat, so that expansion of American exports to Britain will develop with and be conditioned by the expansion of British exports to the world at large.

At the same time the financial agreement is tied with a commercial agreement which promises some relaxation in the war-time restrictions on American trade with Great Britain and other sterling countries. It is one feature of the agreement that as soon as it becomes effective the British Treasury will guarantee payment in dollars for any American goods or services imported into the United Kingdom. One year thereafter, the British Government undertakes, all discriminatory features of the import restriction system will be eliminated. At that time, also the Treasury undertakes to make sterling fully convertible into dollars in connection with any current transactions with third countries. The "current" aspect of this must be emphasized, since it is provided in the agreement that none of the funds advanced to Britain shall be utilized in clearing up sterling blocked balances.

All of which means that immediately, almost, American exports to Great Britain will be freed of all exchange restrictions, although of course still subject to import licensing. It means that in a year from now American exports to third countries—to India, for example—will be paid for freely in dollars. It also means that a year from now American exports, within the framework of any important restrictions in force, will have equal opportunities with those of other countries — in the fruit trade, for example, now restricted entirely to purchases from sterling countries. Total imports of fruits may still be limited, but in whatever imports are permitted the United States will share.

The picture I have drawn so far is in general a grim one, although it contains germs of hope for the future. One can have confidence, also, that the British people will soon buckle down seriously to their task of rebuilding a country devastated by war, given a brief period in which to recover from the first shock of peace. Basically they are a hard-working people, British labor is capable and industrious, and I for one am confident that they will in time work themselves out of their present difficulties.

Anglo-American Trade

For the moment, however, there are definite limitations to the possibilities for doing American business in Great Britain, just as there have been such limitations throughout most of the war period. These limitations vary acording to the type of business, however.

In the field of consumer goods, particularly goods in such categories as luxury products, gadgets, minor labor-saving devices, fancy foodstuffs and the like I should expect the British definition of essentiality to exclude them from the market almost entirely for a fairly long period, running into years. This has one qualification, however, in that there may be earlier relaxation than otherwise in the absolute prohibition against imports of established branded goods and of goods which have enjoyed a traditional market in the United Kingdom. Limitations on volume will very likely be maintained, but it is quite possible that token imports, in a quantity sufficient to preserve an established interest in the British market, will be permitted under some appropriate system of control.

More liberal treatment under the import restrictions may be expected for any types of consumer goods regarded by the British authorities as essential to their economy. These might include items in short supply in the United Kingdom, or not produced in that country, which are defined as essential to the well-being or even perhaps to the morale of the population. For a time the British Government might feel justified in continuing public purchase of some basic foodstuffs, thus keeping them out of the area of free trade, but for most of the raw materials of which Britain is such a heavy buyer Government purchasing has already been discontinued, or soon will be. In a very short time, therefore, it can be anticipated with confidence that trade in most of the consumer goods of an essential nature will be permitted with a reasonable degree of freedom.

Another relatively free trade area should soon develop in the field of goods for production, such as tools, machinery, or any type of equipment which may contribute to British productivity. In some of these Britain is practically self-sufficient, but in others the United States definitely has something to contribute. Particularly in the field of machinery for industry an important volume of trade should develop in the near future, as soon as our financial arrangements are straightened out. Some types of American machinery command a share of the British market already, simply because no equipment anywhere can compete with it—winding machines for rayon yarns, for example, knitting machines for fine hosiery, automatic looms of certain types, some specialized machine tools, specialized steelmaking equipment, and so on down a long list. Some American machinery will be bought in the years to come, even though theoretically it could be built in the United Kingdom itself, because of the time element in reconversion. British factories in urgent need of rehabilitation and modernization cannot wait, in order to get into full production, until British machine builders can supply their needs.

Some American manufacturers, impatient to secure a share in the British market and fearful lest restrictions prevent them indefinitely from doing business in the sterling area, have been investigating the possibility of manufacturing in Great Britain. In general such projects are not feasible if they involve the construction of new factory space, since building labor and materials are at a premium in Great Britain, even more than they are here, and licenses for new construction are rarely granted.

Anglo-American Friction and Cooperation

(Continued from page 1690)

warned me so solemnly about you, that they have got you wrong; and that, if they do not believe me, they had better come here and see for themselves. I am sure that, if they come once they will want to come again.

The more your people aud ours can exchange visits, the better. For the thing that will stand out most clear in my mind as I leave Washington is the necessity for our two countries to get to know each other better and to work together. During these years we have had a good deal of practice in collaboration. There was the period before Pearl Harbor; the period after the United States came into the war; and the period we are in now, when victory has been won, and we are trying to deal with every kind of problem of peace. And although in each of those periods our relationship has been on a rather different footing, we have felt the necessity for it all the time, and every day makes the necessity more clear. If we can set an example of real cooperation, it is going to mean much for the future of the world.

Anglo-American Cooperation Still Urgent

During the war this was obvious and our cooperation was conspicuous. Today, the need is perhaps less obvious but is just as urgent. So complete a victory as we have won brings its reactions, and so great an upheaval is bound to leave a great deal of confusion, which it is not going to be at all easy to get straight. And it follows from this that, when things go wrong and return to normal life is delayed, we get impatient and may be sometimes become critical of one another. Now that in my view is dangerous and is a luxury that in these times we can't afford. Of course people who don't wish to see our peoples working together in peace as in war, won't agree with that; but if, as I hope, you who are here today do wish to see that possible, you can do a great deal to help. I do not mean that you and we are always going to agree on every question that comes up. It would be a very dull world if we did. During my time in the United States I have not always seen eye to eye with representatives of your Government on all matters. If I had there would have been something wrong with them or something wrong with me. But when we have differed, it has always, I think, been with a mutual respect for the other's position; and we have usually found that by frank discussion we could arrive at something acceptable to both our countries.

Something very like that applies right through our relationship, to the Administrators, the Legislators, the press, the radio, right down to the ordinary man who is living in Chicago or Milwaukee or Detroit; and to their opposite numbers on the other side of the Atlantic. They can all help or they can all hinder; and the help can be as valuable to us both as the hindrance can be mischievous. The man with the muckrake either here or in Great Britain may serve a useful purpose in his own sphere, but neither you nor we can afford to have him plying his implement on the field of Anglo-American relations.

So I would like today to talk to you quite freely about a few of the questions which have been coming up between us and could, if not handled in a spirit of understanding and co-operation, put sand in the wheels of our common action.

The British Empire

Let me start with the British Commonwealth and Empire. A lot of people in this country do not like it. They don't like the idea; they don't like the name; they don't like anything about it. But it has often seemed to me that what they really dislike is not the British Empire as it is today, but as it was a hundred and fifty years ago. Well, George III died a long time ago and since then a lot of changes have taken place. Your predecessors taught us a very valuable lesson, which we have never forgotten, and which prevents us today from being at all ashamed of the Empire, or of its record in peace and war. Take the Dominions. They are completely independent and sovereign countries, as independent as you are. Each was free, by vote of its own Parliament, to enter the war or stay out of it. One of them, Eire, did stay out. And each can, if it wishes, by the same process, leave the British Commonwealth tomorrow. We can no more dictate to them on any subject under the sun than we can dictate to you.

Then there are the Colonies. As we all know, there are peoples whose political development has not yet brought them to full self-government. This fact is formally recognized in Article 73 of the Charter of the United Nations, which provides for the trusteeship of such peoples, and we took considerable part at San Francisco in working for the inclusion of that Article in the Charter. But it was not a new idea to us. It reflected the relationship that exists, and has long existed, between Britain and the Colonies. We regard ourselves as trustees; or, if you like, senior partners in the firm: our Treasury does not draw a cent of revenue from them; and our continuing purpose is to build up their political and economic strength, so that they can come to full stature as member of the Commonwealth. Hardly a year passes without the adoption of a new constitution for some colony or other. One year it is Ceylon; last year it was Jamaica; at the moment it is Burma whose constitution has come up for revision; and so the forward march goes on.

India

Then there is India, where I had the privilege to serve as Viceroy, and in which a great many people here are profoundly interested. I have sometimes heard it suggested that the great obstacle to Indian self-government is that the British will not get out of the country and leave the Indians to settle their own affairs. But that is not the real trouble. The whole direction of British policy during the last forty years has been the other way; and the offer which Sir Stafford Cripps took with him to India in 1942 was simply the top rung of a long ladder, each step in which was an advance towards self-government. That offer gave Indians the right, after the war, to choose their own form of Government; and when they were agreed about that, to stay in or go out of the British Commonwealth as they pleased. At the time the offer was turned down; not, I think, because of anything the British did or did not do, but because the great Indian parties, and particularly the Hindus, who form the majority of the population, and the Moslems, who number about 90,000,000 people, were unable to agree. I know it is said that we encourage their differences, but that is simply not true. And rather over a year ago, when Mr. Gandhi, as spokesman for the Hindus, had a series of meetings with Mr. Jinnah, the leader of the Moslems, without any interference from us they entirely failed to come to an agreement. The Cripps offer still stands; and it might be said that the position in India today is not unlike the position here during the period between the end of the Revolution and the coming of Federal Union. The Indian provinces, in which popular elections are now being held, have roughly the same powers as your states. All the matters that would here be handled by the States, are by the present Indian Constitution within the power of Indian Ministers, elected by Indians, and responsible to an Indian Legislature. What is still lacking in India now is what was lacking here after the Revolutionary War—a popularly elected Federal authority. A lot of people said that you would never get it in this country, but they were wrong and you got it in 1788. India's difficulties are formidable, just as yours were, perhaps more formidable than yours were; but there are no grounds for assuming that she must fail, where you so happily succeeded. For this, patience and good will are needed—and above all a clear sense that in the last resort the fate of India lies in the hands of Indians themselves and in their capacity to compose their differences. [Editor's Note: Full independence to India, either in or outside of the British Empire, was offered by British Prime Minister Attlee under date of March 15.]

British Mandates

Finally, there are what are known as mandated territories, which are not part of the Empire at all, but are held under mandate from the old League of Nations. One such mandate, you remember, was for Iraq, that we established several years ago as an independent State. The others, with two exceptions, we have already made clear that we are ready to hand over to the United Nations Organization. Of these two exceptions one was Trans-Jordania; which is now in our opinion ripe for full self-government, and will shortly become completely independent; the other is Palestine, at present the subject of an enquiry by an Anglo-American Commission.

So much has been said about our handling of this mandate that I would like to recall to you certain points about it. It began, of course, with what is known as the Balfour Declaration of 1917 and I am going to read to you the actual words:

"His Majesty's Government views with favour the establishment in Palestine of a national home for the Jewish people and will use their best endeavours to facilitate the achievement of this object, it being clearly understood that nothing shall be done which may prejudice the civil and religious rights of existing non-Jewish communities in Palestine. . ."

That was the pledge we gave, a promise to the Jews, but also a promise to the Arabs, who form the majority of the population. And unless we are to deny everything that we have all proclaimed about people having a say in their own future, and unless we are to take the risk of a bloody civil war, which would help neither Jew nor Arab, we simply cannot ignore the feelings of the Arabs of Palestine or of the millions of the same race and sympathy right through the Middle and further Middle East. The problem will never be solved by force. It can only be solved through the readiness of Jews and Arabs to live peaceably side by side in the same country. Now we await the findings of the Commission appointed by your President and our Prime Minister; and you will no doubt have observed Mr. Bevin's statement in his speech of Nov. 13th in the House of Commons that when the Commission has reported, the future of Palestine shall be decided by the United Nations Organization.

Indonesia

Let me take another example—Indonesia. A lot of people, both here and in Britain, have been greatly disturbed by the fighting in Java, and have been asking what British troops are doing in a Dutch colony. That can be very simply answered; the troops are there on the instructions of the Combined Chiefs of Staff, an Anglo-American body. They assigned this job to us, but they might quite well have assigned it to you; and if they had, you and not we would be having the headache. The troops are there for three purposes, and three purposes only—to disarm the Japanese, to take over their equipment, and to liberate the Allied prisoners of war and civilian internees who are scattered in camps about the island. Of these there were, I believe, nearly a quarter of a million; many of them women and children; some of them have already been murdered; and the rescue of the remainder is a big job for the small force which is all we were able to send to Java. We are only concerned with political questions between the Dutch and Indonesians so far as they affect law and order and so make it difficult for our troops to carry out the purposes assigned to them.

Indonesia has been the subject of a recent debate in the Security Council of the United Nations Organization. So has Greece, the suggestion being made that for purposes of our own we have been interfering in Greek politics. Mr. Bevin dealt pretty plainly and conclusively with this charge in his speech before the Council the other day; but it is worth noting that during the past few months criticism has come from two quarters—from the Right that we have been favoring the Left, and from the Left that we have been favoring the Right. When that happens it is a reasonable inference that the scales have been held pretty evenly between the two extremes. We went to Greece by agreement with all the Greek parties, including the Communists, to liberate the country from the Nazis. We are there now because the political and economic life of the country was so utterly ruined and disorganized that someone has had to hold the ring until the Greeks are fairly on their feet. We have no desire to dictate the future of Greece. Our only object has been to ensure free and fair elections at the earliest possible date, so as to enable the Greeks to settle their future for themselves. For this reason you and we are sending observers to supervise the elections, and I was glad to see that among the Americans is your friend and mine, Bill Waymack of Des Moines, as trustworthy and impartial a witness as anyone could wish to find. [Editor's Note: Greek elections are scheduled to be held on March 31.]

The Loan to Britain

Then there is the question of the loan to Britain. I know there is a considerable difference between the American and British attitudes about it, and that this difference is reflected in the kind of criticisms we are hearing on both sides of the Atlantic. Our feeling in Britain was that with us the war had lasted for nearly six years—two years and three months longer than it lasted for you—and that part of the time we were carrying its full burdens alone. In order to get the equipment and food we needed we cut down our exports to bare essentials and liquidated most of our overseas assets. We mobilized our population on a greater scale than any other Ally and, as the price of keeping the sea lines open, we ended the war with 6,000,000 tons of shipping less than we had when we began. Now this is not just a hard luck story. Before the war the United Kingdom was the greatest importing country and trading center in the world; it took about one-fifth of all the goods exported by all countries; you sent us more than you sent to anyone else; and if economic victory over the difficulties left by the war is as necessary to the peace and prosperity of all peoples as was military victory in the war, the quicker the United Kingdom recovers, the sooner that economic victory is likely to be won.

Most of the talk has been about the Loan and its conditions and rate of interest; and some people seem to miss the point that what you would really to be lending is not dollars, but a credit to buy American goods. Every cent of the credit would directly or indirectly be used in that way and could not be used in any other way.

But really the Loan, though essential, is only a minor part of the proposed arrangement. What in fact we are trying to settle is the whole economic pattern of the future. Before the war the dollar and the pound between them covered more than half of the world's trade. After the war their share may be even higher; and for this reason the prosperity of the world will depend very largely upon the free interchange at a stable rate of these two great currencies. If we do not get that, if these two currencies, instead of marching forward together, retire into separate camps, it is not difficult to see what is likely to happen. The camps will become concentration camps; no one will be able to get into them or out of them without difficulty. There will be high barbed wire fences, and callers will not be encouraged. A man, or a nation for that matter, will be able to do business in one camp or in the other; but he will find it far from easy to do business in both. Now that sort of thing is not going to be much good to anyone; not to us, for whom a large export trade is more than ever the staff of life; not to you, who, when you have satisfied the immediate consumption needs of your own people, will be looking for markets overseas; not to the countries who want to trade with us both; and above all, not to the cause of world peace, which is so closely wrapped up with the economic

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However, the Board of Trade controls a considerable volume of existing factory space, now released from war production, and it is available for approved enterprises. Approval in that connection depends on a number of factors, but in general it may be said that the Board of Trade will release space to any enterprise which promises to contribute to general employment in the country, to supply products needed by the population, and especially products which may be exported. It will not release space to enterprises which simply propose to build increased competition for existing facilities if they are adequate to meet the country's needs. The Treasury does not discourage American investment in new enterprises, and it will undertake to transfer freely the profits of such organizations, but it will not commit itself to retransfer the capital on demand.

A variant of the American interest in manufacturing in Great Britain has also developed recently with a number of arrangements between American and British firms for sharing in the development of production. The American firms in such instances are interested in developing broader markets for their products, and it is of value to them to work with firms which own factory space and have organized labor forces. British firms are interested in importing American "know how," and particularly the techniques of mass production, for which the world has acquired a healthy respect based on the war production record of the United States.

Anglo-Amer. Friction and Cooperation

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well-being of us all. Therefore we have turned to the other policy, believing that the freer and easier we can make the exchange of goods, the more trade is likely to expand and the greater will be the prospect of a mounting demand to match the mounting supply, that modern industrial methods make it possible to provide.

It is of course for you to judge how important all this is to you. In the last resort it is the interest of America that matters to Americans. No one in Britain has any wish to see you act contrary to those interests, or any right to ask you to do so. But taking a long view, and putting altogether on one side any question of whether you want to help the British or not, I am convinced the Secretary of State was right when he pointed out a few days ago that, as a matter of pure business, the agreements, which your representatives made with ours last December hold the best prospect for the future, not only for Britain or the world, but also for yourselves.

The Anglo-American Agreements

Well, I have tried to talk to you frankly about some of the "rubs" between us. Each one of them by itself may not amount to much, but taken all together, they might cause quite a lot of friction. They are so much grit dropped into the works. They may slow down the machine of Anglo-American cooperation; if neglected and allowed to accumulate, they might even bring it to a stand-still. Yet I do not believe—and after more than five years in Washington I can perhaps speak with some experience—that any trouble is ever likely to arise between your country and the British Commonwealth which, with patience and good will on both sides, we shall not be able to iron out. And if we take the general picture, that is what we find has in fact been happening. What could have been closer than our comradeship in research over the Atomic Bomb and in the policy we have worked out for its future? We have had our differences over oil, that Mr. Harold Ickes handled in London a few months ago, and over telecommunications, but these too have now been cleared. A lot of people thought we should find a sharp division of opinion over civil aviation, but on this too we have just come to a mutually satisfactory agreement at Bermuda. And finally there were the financial talks in Washington last Fall, in which your representatives and ours reached agreement on what was perhaps the most perplexing problem of all. That is not a bad record of collaboration. All these achievements are so many signs along the road we are to travel and they all point in the same direction.

It is therefore my hope and prayer that we may continue to travel that road together as comrades, conscious that our association will never be used to the world's loss, but will always be the faithful servant of peace, of justice, of opportunity and of freedom. Those are the things for which millions of humble people the world over are hungry today, and I have no doubt that by joint call upon the strength and vision of our two nations we can do much to meet their needs.

The Anglo-American Loan And World Peace

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and those they sell abroad. Only by selling goods and services abroad can they get the dollars necessary in the long run to buy what they need abroad. We, in America, who live so largely from the resources within our Nation, sometimes forget how different is the situation of countries which cannot survive without a large measure of foreign trade.

Britain's export trade, the main source of her international earning power, was down to one-third of normal by the end of the war. Why? Because in her wartime partnership with us, it was agreed that she should concentrate her efforts on war production while we provided her essential imports under Lend-Lease. Lend-Lease abruptly ended on V-J Day. Britain's struggle to rebuild her export trade did not begin until that day. It will take years for her to rebuild her exports, especially since they must now rise far above the prewar level to make up for her wartime loss of income from her overseas investments.

Before the war Britain was one of the greatest creditor countries in the world, receiving each year close to $1 billion of net income from her foreign investments. The necessities of war compelled her to liquidate a large part of her foreign investments and to incur, in the form of frozen sterling balances, foreign obligations amounting to approximately $12 billion. As a result, her net income from foreign investments has been reduced to about $400 million. Not only has she lost this income, but she has lost liquid assets which might otherwise have been available to tide her over this postwar situation.

This, in brief, is why the British seek our help. There is nowhere else they can turn to get the help which they need in addition to what they can get from within the Empire.

Second: What Would It Cost Us To Give This Help?

We are asked to provide a line of credit of $3,750,000,000 to be drawn over a period of from three to five years. The British wanted, and made a strong case for much more. The American negotiators, however, were not willing to ask the Congress to provide more than we concluded was the irreducible minimum needed to do the job, having in mind (1) Britain's urgent requirements for foreign goods, based on continuation of an austere standard of living for her people, (2) her capacity to pay out of her own resources, and (3) the amount of help she might obtain from countries other than the United States.

What does a loan of $3,750,000,000 cost the United States? The interest rate which our Government has to pay on borrowed money is not the important matter that some have tried to make it seem. The real question is the strain on our financial and economic resources. That involves a real cost. I scarcely need remind you that we, too, have inherited troubles from the war. We have a national debt of nearly $280 billion. We still face dangerous inflationary pressures because of the excessive purchasing power created as a result of the way in which we financed the war and because of our great shortages of goods relative to this purchasing power. The expenditure in our markets of dollars provided under this loan would admittedly add further inflationary pressures to our economy at this time.

Fortunately the added pressures would not be as heavy as they might seem at first sight. Expenditure of the dollars provided in this proposed loan would be spread out over several years. Some of the dollars would be spent initially in other countries and might take some time to find their way back to our markets. Some would be spent on commodities which are not in short supply. And unless we bog down in the management of our own affairs at home, our vast capacity to produce goods will progressively overcome the shortages during the life of this extension of credit.

It was neither practical nor desirable to attempt to specify as a condition of the loan how, or when, or for what the dollars should be spent in our markets. We already have and should retain the over-all control of exports, through export licenses, whereby we can exert a real measure of control over the timing and nature of all foreign demands, whether they arise under this loan or otherwise, that may be made on our economy during the period of inflationary pressures. However, we shall have to share with the world some of our scarce resources. This fact has been recognized in our food program. We shall need to recognize it as it affects other necessities if we are to help bring about economic and political stability in the world. This takes me to my third point.

Third: What Would We Get in Return?

Out of this proposed loan, which is an integral part of a far larger fabric of international arrangements, we expect far more than a mere financial return. The contract provides for repayment of the principal and for a moderate rate of interest. But at this juncture in our affairs we are not looking for loans just for the sake of playing the role of world banker. Only the most real and urgent reasons, based on our own national advantage, would justify our incurring the costs of any foreign loan at this time. If the granting of this British loan does not reasonably promise lasting benefits and compensations to the United States which far outweigh the financial considerations involved, the loan should not be made. If I did not feel that this loan is in the deepest sense in the interest of this country, I would not be here today recommending that you approve it.

We live today in a sick world. We have yet to attain the objectives of the Atlantic Charter, freedom from want and freedom from fear. These objectives will never be attained, and our ideals of peace and democracy cannot long survive if we merely indulge in pious hopes and do nothing to prevent the world from degenerating into further economic chaos in the aftermath of the most devastating of all wars.

What are we doing about it? As you know, the American Government has taken the lead in drawing up treaties of economic peace as the basis for a stable world order. We have laid down "rules of the game" for a peaceful and productive system of world trade and finance, first in the Bretton Woods Agreements and then in the proposals for an International Trade Organization. The basic justification for the British loan is that it would enable Britain to join with us in making a living reality out of these blueprints for world recovery and reconstruction.

British interests in this field correspond with our own. No country has a greater stake in a sound and healthy world trade than Britain. With the loan, the British will be given the help they need to work out of their postwar predicament in a peaceful and orderly way. They would open their markets to the world on a basis of non-discrimination and receive access to foreign markets on the same basis. They would be able to make pounds sterling earned by foreign suppliers of the British market freely convertible into other currencies so that trade would no longer be arbitrarily channeled along bilateral lines. They would become part of a world trading system, which is essential to the maintenance of employment and economic stability in a democratic world.

On the other hand, if we refuse the loan, the British would be forced to make a desperate bid for economic domination in large areas of the world. They would have to intensify their trade and exchange restrictions, and to resort to every economic device to gain advantage in world markets and obtain necessary supplies. This would force a large part of the rest of the world into retaliation along the same lines. As a matter of self-preservation countries would turn increasingly toward state trading and barter. The British people would suffer privations ever greater than in wartime, and no one could say whether freedom and democracy could survive such conditions there. Along this road lies further totalitarian development.

Such a prospect would be profoundly disturbing. If our relations with the British Empire degenerate into a state of bitter rivalry between trading blocs, can we retain any hope of salvaging a decent peace from the wreckage of war? Faced with this situation, we are asked to provide a sum equal to 15 days' cost of fighting the war. I believe that if we could afford to **give** $21 billion dollars of Lend-Lease aid to a partner in winning the war, we should be able to **lend** a small fraction of this sum to secure a partner in winning the peace. If the war had lasted longer, as many expected, we would not have hesitated to furnish further Lend-Lease aid to Britain even though the amount might have far exceeded this loan.

But what about the risk of default? Of course it exists. We cannot foresee the conditions which will prevail over the rest of this century and neither this loan agreement nor any of the other economic arrangements into which we now enter can survive a state of world-wide economic collapse such as we suffered during the Great Depression. But if the world economy is restored to a healthy basis, the payments on this loan, amounting to no more than 2% of Britain's annual expenditures abroad, cannot be judged burdensome. Let me impress this thought upon you: that our very purpose in making the loan is to create the conditions in which it can be repaid.

You will have noted that I advocate this loan on its own merits and primarily as a contribution to world stability. I do not believe in foreign lending for the sake of creating employment here and exporting unemployment to foreign shores. We get employment, yes, while the money is being spent, but the fruits of that employment are lost to us permanently if we persist in refusing to take goods and services from foreign countries to enable them to service and repay their debts. If we desire to maintain a thriving export business **and** receive service on our investments abroad, we must make the exchange of goods and services a two-way street. In the end, responsibility for making it possible for our debtors to pay is ours, and ours alone.

The decision is in your hands. It is a fateful one. Without effective British participation, which is possible only if we lend our aid, the Bretton Woods institutions cannot fulfill the hopes which we have placed in them. Without the fulfillment of these hopes for a stable economic order in the world, there is little prospect of success for the United Nations Organization in its search for political stability and security. Without economic or political stability, we can expect only a continued drift of world affairs toward the catastrophe of a third World War.

Is there not finally another compensation if we make this loan? It arises from the American sense of fair play. Are we the sort of people that would fail to help in an hour of great need a stout-hearted ally dedicated to the institutions of freedom and democracy—an ally which once stood alone through the long dark night as the only barrier between this country and Axis aggression. As we review the past, let's not forget that while the British owe us much, we also owe them something.

Gen. Marshall Returns From China Mission

General George C. Marshall returned to Washington on Mar. 15 from his three-months mission as special envoy to China. Shortly after his arrival he conferred with President Truman and Secretary of State Byrnes, but no statement of his report was issued until the following day. General Marshall left for China in mid-December after Major-General Patrick J. Hurley had resigned as Ambassador to that country, and subsequently much of the credit for the amicable settlement of relations between the Chinese Nationalists and Communists was accorded the wartime Chief of Staff, as the Assocaited Press stated in its dispatch from Washington.

At a news conference on March 16 Gen. Marshall revealed that Chinese Government divisions, to a large extent American trained and equipped, were en route to Manchuria, where, he said, the situation was "extremely critical"; however, he indicated that there were indications that Russian occupation forces would be withdrawn and affairs stabilized in this Chinese province. The difficulty appears to lie in the reluctance of Chinese Communist factions to relinquish control to Government forces as the Russians pull out.

President Truman has already announced, according to the Associated Press, that Gen. Marshall is to return to China as his special envoy upon completion of conferences here.

In his statement of the work accomplished toward mediating the opposing Chinese forces, General Marshall said, according to the Associated Press:

"We were able to resolve almost every difficulty once we got the people together. It was very remarkable how quickly we could straighten out what seemingly were impossible conditions and which had their tragic effect on the Chinese people. A single conference of a few hours in an afternoon would raise the encirclement of what amounted to 10 or 12 besieged cities where people were starving. It only took that long to straighten out, but until we arrived nothing could be done."

Generalissimo Chiang Kai-shek spoke warm words of praise for General Marshall at the closing session of the Kuomintang (Nationalist party) Congress, describing him as a mediator who has helped begin the task of national reconstruction "so China might contribute to the peace in the Pacific and to the world." "Ever since his arrival in China three months ago," Chiang declared, according to an Associated Press dispatch from Chungking on March 17, "he has worked indefatigably and sincerely as a friend to help us attain peaceful national unification."

What America Needs

(Continued from page 1690)

that we can control the social forces of the modern world, in which the release of atomic energy has required such rigorous planning in laboratories and factories, without any plan at all. We cry over planning as a menace to liberty without understanding how freedom is denied by the hunger, unemployment and industrial strife inherent in our profit system. We believe that any man can become President of the United States—a fact which on occasion has been proved—and certainly that any man can vote for President, but that no worker is good enough to vote for the director of the corporation in which he invests his energies. That is a function vested in absentee stockholders, who usually exercise it by proxy.

Instead of talking in terms of abstractions like collectivism and individualism, planning and freedom, we should be talking about what ought to be socially owned and how it ought to be managed in order that there may be both abundance and freedom. Instead of denouncing all planning as if it meant totalitarianism, we should discuss the kind of planning consistent with freedom. I agree with Barbara Wootton that the essential feature of planning is the right of a public authority to determine economic priorities. The right sort of planning requires far less bureaucracy and red tape than we accepted in war.

No Plan For Peace

Even worse than in domestic policy is our leaderless confusion in winning lasting peace. The wellnigh complete failure of our government, from Pearl Harbor on, to have any plan for peace except in terms of negative; its lack of any great and inspiring purpose; its dependence on secret diplomacy and the politics of appeasement of one or both of the Russian and British imperialisms, have already cost us and the world a stupendous price. But our very blunders have made clearer the real basis of peace.

One necessity is the establishment of something more worthy to be called world government than the United Nations Organization. Meanwhile that organization has useful functions and it may, by amendment, be developed into something better. But a more adequate piece of governmental machinery than is now available will not of itself alone establish lasting peace. The extreme advocates of the sufficiency of world government who are forever appealing to the analogy of the American Federal Union usually overlook the fact that Federal union superimposed on the unsolved moral and economic problem of chattel slavery did not avert the horrors of a civil war. World organization superimposed on racial discriminations, fantastic economic inequality, preventable poverty, rival imperialisms and competing militarisms cannot guarantee peace.

War Means End of Civilization

Uneasily the American people are becoming aware that war, fought with atomic explosives, will mean the end of our civilization if not of the human race. Yet if polls of public opinion are correct the percentage who expect a third world war is greater than before the atomic bomb fell on Hiroshima.

Peace has its price. It is, first of all, an intelligent and effective compassion for the desperately hungry and homeless peoples of Europe and Asia. Then it is the complete liquidation of all imperialism, whether it is American dollar diplomacy, the Soviet manipulation of puppet states, or the white colonial imperialism of European powers. It is possible with the aid of an international organization to work out a better pattern of human relations than imperialism, a pattern which combines the right of self government for every people with the necessity for regional and world wide federation.

The price of peace is progressive, universal, national disarmament—not merely the renunciation of atomic weapons, which renunciation cannot be effective if we keep war. There must be universal abolition of peacetime military conscription. It is a cause for despair that instead of working for that, President Truman, who on Christmas Eve bade us to fulfill the prophecy that men should "learn war no more," urges on us an archaic teaching of war to all our able bodied sons by an army which General Holdridge, representing the Veterans' League of America, has denounced as "an excellent breeding ground for totalitarianism."

Political Realignment Required

It is not yet too late for America to save herself and the world. The process will require a political realignment. Our present two-party system is largely responsible for the confusion of the American people and the ineffectiveness of democracy. In the campaigns of 1940 and '44 Messrs Willkie and Dewey vehemently attacked the Democratic Administration without proposing one single amendment of importance to its foreign or domestic policy. Sidney Hillman and other labor leaders hailed the results of the last election as a triumph for labor and its political tool, the P. A. C. Ladies and gentlemen, behold the result! The Democratic Party rules and it includes men whose policies range all the way from the racism and undemocratic reaction which inspired the filibuster against the Fair Employment Practice Bill to blind acceptance of the leadership of Stalin in all things. There are leading Democrats who claim to believe in civil liberty in America and yet justify its complete denial in Russia, including the abomination of slave labor like Hitler's own. No wonder the people are confused. The President tries to appease his left wing by words and his right wing by appointments. The Republican Party is little more united. If the La Follette Progressives should unite with it, it will be a marriage without love, honor, or obedience.

The Anti-Saloon League proved once and for all that manipulation of the sort now tried by the P. A. C. may achieve an astonishing result in the passage of one law. But the Anti-Saloon League could not enforce or keep prohibition. Much less can P. A. C. by similar tactics enact or carry through a comprehensive program for plenty, peace and freedom.

Advocates a Mass Party

With no urgency, I proclaim the long standing Socialist belief in the necessity of the formation on a national scale of a mass party, along lines the Canadians successfully used in the formation of the party they call the Cooperative Commonwealth Federation. Once we get together we can scarcely fail to agree on the direction along which planning for plenty, peace and freedom must lie. Unions, farm associations, and consumers' cooperatives are essential. They cannot do the work of a political party or manipulate either of the old parties out of the hands of those who now own them. Already informal conferences are exploring the possibilities of the building of a party of the people and for the people. If you are interested, write to me for this speech and further information at 303 Fourth Avenue, New York City.

It is not yet too late to save our children from disaster. The price of our salvation is a comprehensive purpose, adequate planning, and political action which require a different sort of mass party than those which now receive our cynical sufferage.

Resources of New York State Banks Increased in '45 to $24,168,737,000—Supt. Bell's Report

Total resources of banks and trust companies chartered by the State of New York increased during 1945 by $2,115,904,000 to a new high of $24,168,737,000, according to a report made public on Feb. 21 by Elliott V. Bell, Superintendent of Banks. He pointed out that the 9.6% increase during 1945 was much below the 17.8% rise during the preceding year.

Net profits after taxes rose by $32,345,000 to a new high figure of $164,601,000, or 25% above those of 1944. He reports that only one-third of the increase in net income before taxes, however, resulted from net operating earnings. These increased by but 13.4% in New York City banks and by 3.7% in all other State banks. The remainder of the increase in net income arose from profits or recoveries on securities or loans and from other sources not related to current operations. The advices regarding the report also said:

"Deposits also stood at a new high point on Dec. 31, 1945 of $22,205,868,000 after increasing by $1,890,103,000 during the year. This 9.3% increase was only about half as great as the 18.7% expansion which took place in 1944. During 1945, the rate of deposit expansion in New York City banks was 8.3%, while in those outside New York City the increase amounted to 16.4%..

"Most of the $2,115,904,000 increase in resources, Mr. Bell said, came from increases of $599,281,000 in loans on securities at New York City banks, $340,746,000 in United States Government securities held by banks outside New York City and increases in cash and due from banks and commercial and industrial loans in New York City banks amounting to $857,430,000 and $289,496,000, respectively. The amount of United States Government securities held by the State banks in New York City was slightly lower at the end of the year than at the beginning. A tendency to purchase Government securities with longer maturities developed among banks both in and out of New York City.

"The report indicated that net profits after taxes had risen steadily during the war years from $39,287,000 in 1939 to $164,601,000 in 1945. Before paying $60,015,000 in taxes, net profits in 1945 were $224,616,000. These included current operating earnings of $161,673,000 and $62,943,000 in net profits and recoveries on securities, loans and other assets. This latter figure has varied from a net loss of $21,673,000 in 1939 to the large net profits reported in 1945. Prior to 1945 the greatest net non-recurring profit of this type in recent years was $27,766,000 in 1943. Net income from operations, on the other hand, has increased steadily from $65,391,000 in 1939 to $161,673,000 in 1945. Condensed earnings statements for all State banks and trust companies for 1944 and 1945 were as follows:

Condensed Earnings Statements of All State Banks and Trust Companies

	1944	1945
Current operating earnings	$310,309,000	$344,059,000
Current operating expenses	166,246,000	182,386,000
Net current operating earnings	144,063,000	161,673,000
Net other income	26,246,000	62,943,000
Profit before income taxes	170,309,000	224,616,000
Taxes on net income	38,053,000	60,015,000
Net profits	132,256,000	164,601,000
Interest and dividends on debentures, preferred stock, etc.	2,095,000	1,790,000
Dividends on common stock	45,237,000	49,666,000
Net profits after interest and dividends on capital	84,924,000	113,145,000

"Mr. Bell further pointed out that the capital funds of the banks increased by $119,431,000 to a total of $1,650,725,000, principally as a result of the retention of $113,145,000 of net profits. Dividends on common and preferred stock and interest on capital debentures totaled $51,456,000 in 1945, as compared with $47,332,000 in 1944. Of the 272 banks in operation at the end of 1945, 223 paid or declared dividends on common stock. Only 80 of these raised the rate of dividend above that paid in 1944 and 23 resumed dividend payments.

"Reports to the State Banking Department showed interest income on United States Government securities separately for the first time. The ratio of interest received to the average amount of Government securities held during the year was 1.25% in the banks in New York City and 1.47% in all other State banks. Similar rates of return on other securities averaged 2.15% in New York City and 2.71% outside New York City. The average rate of return on all securities rose from 1.25% to 1.29% in New York City banks and fell from 1.61% to 1.54% in all others. The year-end reports showed a continuation of the decline in the average interest income on loans. In the New York City banks the decline was from 1.82 to 1.55% and in the banks outside New York City from 3.99 to 3.74%."

Greece Rejects Allied Reparations Award

Greece announced on Dec. 27 her rejection of the reparations award proposed for her by the Allied Reparations Commission, calling it inadequate and unjust, according to Associated Press accounts from Athens, appearing in the New York "Times," which further said:

The figure was reported here to be $10,500,000,000 from Germany alone, against $14,000,000,000 that Greece has claimed from Germany, Italy and Bulgaria. Announcing a telegram of protest to the Allies, Foreign Minister John Sophianopoulos declared: "The quota allocated to the Greeks is out of proportion to the sacrifices and damage sustained by Greece through the war and enemy occupation."

The "Times" added:

The Reparations Commission announced last Friday (Dec. 21) a division of German assets among 18 nations, subject to ratification by the individual governments, but it did not place a money value on them. Greece received 2.7% of category "A," including foreign assets, current production and stocks, and 4.35% of category "B," made up of shipping, industrial machinery and other goods taken from western Germany.

Factory Workers Pay At Peak in Dec.

Gross hourly and weekly earnings of factory workers in December reached the highest level since V-J Day, and retained that position in January according to preliminary estimates, the Bureau of Labor Statistics of the U. S. Department of Labor reported on Feb. 21. Workers in the light industries averaged almost 93 cents per hour, the highest ever received by such employees as many groups reported increases due to recent upward wage adjustments. The Department under date of Feb. 21 further reported:

"The average workweek for all manufacturing was 41.6 hours in December, almost ½ hour longer than in November, as most plants resumed normal operations after observance of November 11 holiday.

"Weekly earnings for all manufacturing averaged $41.43 in December, about 60 cents more than in November, but $4 less than in July, the month before the full effects of war contract cancellations were felt. While earnings in the durable goods group are considerably below the July level, those in the nondurable group are slightly above, so that the difference between the two is greatly narrowed, from $12 in July to slightly more than $5 per week.

"Weekly earnings advanced between November and December in 16 of the 20 major manufacturing groups. The largest gain, 6½%, occurred in the transportation equipment group, and was entirely the result of longer working hours as striking shipyard workers returned to their jobs. The only sizable decreases in weekly pay were in the automobile and tobacco groups. The decline in earnings of tobacco workers was brought about, for the most part, by a reduction in production and in the working schedules of the cigarette industry.

"Hourly earnings for all manufacturing averaged 99.7 cents in December, slightly more than in the previous month, but 3½ cents less than in July. However, workers in the nondurable goods group received 2½ cents an hour more than in July. Practically all major groups reported increases in hourly pay between November and December as the result of wage rate adjustments. The largest gains, almost 3 percent, were in the lumber and leather groups—the former reflecting wage settlements for striking West Coast lumber workers.

"Increases in both hours and earnings were reported by the coal mining industries. The large percentage gain in weekly earnigs and hours for anthracite miners reflects the resumption of normal operations after the long holiday in November. In metal mining, weekly hours and earnings were cut as the result of a seasonal slow-up in operations."

Russia-Switzerland Resume Diplomatic Tie

After a break of 22 years, diplomatic relations between Russia and Switzerland, have been resumed, on Swiss initiative, according to an announcement by the Swiss Political Department reported by the Associated Press from Berne on Mar. 19. Switzerland it is stated was among the first nations to recognize the Soviet Union, but diplomatic ties were severed in 1924 after a Russian official was assassinated on Swiss soil. Earlier attempts by Switzerland to reestablish relations met with rebuff, the report stated. The new tie is believed to be the forerunner of commercial relations between the two countries in the near future.

New Japanese Constitution Announced

The Japanese Government, acting in consultation with Allied Headquarters officials, has formulated a new constitution which vests sovereignty in the people and reduces the Emperor from "a sacred and inviolable" monarch to a symbol of state with merely formal functions, very limited in scope. The document, which is the result of intensive study, and represents the Japanese Government's action to conform with the requirements of the Potsdam declaration that the form of government be determined by the freely expressed will of the people, was drafted with the full approval of General Douglas MacArthur, it is stated. The General expressed this approval and his satisfaction with the proposed Constitution in a statement released on Mar. 6, the day the announcement of the document was issued from Tokyo, according to Associated Press dispatches.

Chief among the provisions of the new Constitution is that which states that never again shall Japan maintain an army, navy or air force or any other war potential, and that war is abolished as a sovereign right of the nation. Referring to this provision, General MacArthur in his official statement declared:

By this undertaking and commitment, Japan surrenders rights inherent in her own sovereignty and renders her future security and very survival subject to the good faith and justice of the peace-loving peoples of the world.

By it does a nation, recognizing the futility of war as an arbiter of international issues, chart a new course oriented to faith in the justice, tolerance and understanding of mankind.

The Japanese people thus turn their backs firmly upon the mysticism and unreality of the past, and face instead a future of realism with a new faith and a new hope.

Reminiscent in its opening words of the Preamble to the United States Constitution, the Preamble to the proposed Japanese Constitution reads, according to the Associated Press:

We the Japanese, acting through our duly elected representatives in the National Diet, determined that we shall secure for ourselves and our posterity the fruits of peaceful cooperation with all nations and the blessings of liberty throughout this land, and resolved that never again shall we be visited with the horrors of war through action of the Government, do proclaim the sovereignty of the people's will and do obtain and establish this Constitution, founded upon the universal principle that the Government is a sacred trust, the authority of which is derived from the people, the powers of which are exercised by representatives of the people, and the benefits of which are enjoyed by the people; and we reject and revoke all constitutions, laws, ordinances and rescripts in conflict herewith.

Desiring peace for all time and fully conscious of the high ideals controlling human relationship now stirring mankind we have determined to rely for our security and survival upon justice and the good faith of the peace-loving peoples of the world. We desire to occupy an honored place in an international society designed and dedicated to the preservation of peace and the banishment of tyranny and slavery, oppression and intolerance for all time from the earth. We recognize and acknowledge that all peoples have the right to live in peace, free from fear and want.

We hold that no people is responsible to itself alone but that laws of political morality are universal; and that obedience to such laws is incumbent upon all peoples who would sustain their own sovereignty and justify their sovereign relationship with other peoples.

To these high principles and purposes we the Japanese people pledge our national honor, determined will and full resources.

Besides the renunciation of war as instrument of progress, the new proposed Constitution has other far-reaching implications for the Japanese people. It replaces the powerful House of Peers with a House of Councillors who must be elected by all of the people and who may be overridden by the House of Representatives on some major issues. It provides the dynastic continuance of the throne, but says it shall "be succeeded to in accordance with an Imperial House law (to be) passed by the Diet." Heretofore, the Imperial House law had been made by the court itself and the Diet had no authority over it. The Constitution, said the Associated Press, includes an unprecedented clause for establishment of a regency. It also specifies authorization of the Diet before property can be given to the Imperial House or disbursements can be made by it. It abolishes the right of peerage to any national or governmental power and provides for and end to the peerage upon the death of those now holding titles.

It enumerates a long list of revolutionary individual freedoms for the Japanese people, based upon American rights, of which some are, according to the Associated Press:

Equal rights for husband and wife and a specification that marriage "shall be based only on mutual consent of both sexes."

No person "shall be held in bondage of any kind." Involuntary servitude is prohibited except as punishment for crime.

"Freedom of thought and conscience shall be held inviolable in this country where thought police existed until the occupation.

"Infliction or torture by any public official and cruel punishments are absolutely forbidden."

Individual Japanese also are given other protections from heretofore despotic police, including specifications for search and arrest warrants, speedy trial, universal recourse to courts and a provision that the individual shall not be required to testify against himself. All of these and similar criminal rights were unknown in Japan, where most cases were based upon confessions, usually obtained under duress.

These other rights accompany the more commonly known freedoms. The Constitution also provides that the "State and its organs shall refrain from religious education or any other religious activity."

The Constitution will be submitted to the next Diet session, presumably shortly after the April 10 general election, for approval. Providing for selection of the Premier by the Diet, it also specifies that the present officers can remain. Nevertheless, the Associated Press pointed out, the present Cabinet may be forced to resign shortly when a new extension of the political purge ordered by General MacArthur is announced.

Nat'l Science Plan Passes Senate Group

Under a bill approved by the Senate Military Affairs Committee on Mar. 19, Federal funds would be made available to establish a national science foundation for research in the basic sciences, engineering and medical and social sciences. Certain provisions of the proposed bill are expected to meet with strong opposition on the Senate floor, but Senator Elbert D. Thomas (D-Utah), Chairman of the Committee, stated that no immediate effort would be made to bring the measure to a vote.

Statistics on Income From U. S. Firms' Invs. In Foreign Countries

The Department of Commerce is seeking to compile accurate statistics on the income from direct investments made by United States firms in foreign countries and has requested information from 400 firms holding an estimated 90% of all such investments. Announcement of this was made on Feb. 26 by Hal B. Lary, Chief, International Payments Unit, Office of Business Economics. Advices from the Department stated:

"The last detailed figures on the value of United States direct investments abroad published by the Department of Commerce were compiled before the war, Mr. Lary said. In 1940 Americans derived $450,000,000 (M) in income from a total direct investment, mostly in foreign subsidiaries and foreign branches, of $7,000,000,000 (B).

"Much of this foreign investment, particularly that held in Europe, Japan, British Malaya and the Netherlands Indies, was written off by American firms, Mr. Lary said, but the investment in Latin America—in mining properties for instance—paid handsome dividends during the war.

"Although few foreign bonds are being floated in this country now, the Unit is also asking banks to furnish information on such holdings left over, for the most part, from the boom days of the 1920's when Americans purchased about $9,500,000,000 (B) in foreign dollar bonds. During the 1930's these dollar bond holdings were reduced drastically and at present it is estimated that only about $2,500,000,000 (B) at par value are still outstanding in the United States, Mr. Lary said."

Cotton Week Scheduled

Cotton Week this year is scheduled for May 20-25, according to an announcement on Feb. 11 by the Cotton-Textile Institute and National Cotton Council. "Cotton Is Back" has been chosen as the slogan for the event which will be marked not only by merchandise presentations in retail stores across the nation but also by cotton carnivals and community programs in many of the cotton growing and textile centers in the Southern States.

The Institute notes that ever since Pearl Harbor, promotion events in connection with Cotton Week have been discouraged while stores emphasized the necessity for cautious, conservative buying. While no attempt, says the Institute, will be made this year to start a run on the supplies of cotton goods in retail hands, much emphasis will be put on the fact that mills in large measure have overcome most of the difficulties of reconversion and are concentrating all their effort on correcting the supply situation. Production, it will be pointed out, is running well above pre-war levels and American consumers this year will receive as much cottons as were supplied them in 1941.

Thousands of vivid posters picturing a service button against a cotton boll background will be distributed to retail stores and civic organizations. Also distributed will be considerable literature describing new cotton products and the part the industry is playing in the nation's reconversion effort.

Martin Advocates Curb on Draft at House Hearings on Peacetime Conscription

At the hearings before the House Military Affairs Committee on universal military training, proposals that attempts be made toward the abolishment of military training among all nations by agreement again came to the fore. Republican floor leader, Representative Joseph W. Martin, Jr., of Massachusetts, suggested to the Military Affairs Committee on Feb. 27 that the United States take the lead, through the United Nations Organization, in seeking to outlaw peacetime conscription everywhere and in obtaining agreement among the countries for "the eventual reduction of armaments." "While we are now obliged to keep a six-shooter in one hand," Mr. Martin said, according to the Associated Press Washington dispatch of Feb. 27, "we extend the olive branch of peace with the other." He added that "the world will never be sure of peace until we have reduced armies and military establishments to a reasonable level."

The following day two educational groups, through their spokesmen, lent support to the proposal of Representative Martin, which already had strong Republican backing in the House. The Rev. Edward V. Stanford, rector of Augustinian College, Washington, and spokesman for the National Catholic Education Association, told the Committee he was "not impressed" by those who believe the United Nations would not seek to outlaw conscription. "The effort should be made," he said. "In no other way, I am convinced, can this nation in good conscience consider proposals for universal miltary training in peacetime."

The Associated Press also said:

The views of the National Education Association were presented by William G. Carr, based on policy expressions made formally by NEA groups last December.

"We do not favor a system of compulsory peacetime military training because we do not think that at the present time that is the best way to get security," Mr. Carr said.

If other measures fail, he added, compulsory training and service "could be adopted as a last resort."

At the Committee hearing on Feb. 27 Representative Martin, in calling on the United States to take the lead in a world campaign to wipe out compulsory military service and to cut down on weapons of war, urged, said the Associated Press, that United Nations machinery be used to attain the objective. He has introduced a resolution urging efforts to seek an international ban on peacetime conscription before Congress votes on universal military training for this country.

The Press advices from which we quote also stated that Senator Capper contended that the lessons of history prove that compulsory military training, "while not perhaps a direct cause of war, certainly is a temptation to rulers to engage in war." The Press accounts added:

Mr. Capper said he was "just a little bit shocked this winter" at these two happenings he said occurred almost on the same day:

"First, I read in the newspapers that Gen. MacArthur, in Tokyo, had ordered military conscription ended in Japan. The reason given was that military conscription led to militarism and imperialism.

"And within a few hours after that, President Truman recommended to Congress that this nation adopt a program of compulsory military training, the first step toward military conscription in peacetime. I cannot understand why mliitary conscription would lead to militarism and imperialism in Japan, and not have that effect upon our own people."

On Feb. 21 Representative Andrew J. May, Democrat, of Kentucky, Chairman of the House Military Affairs Committee, abruptly halted further hearings on compulsory peacetime military training, provoking a dispute from fellow members of the Committee who want to hear more witnesses.

On the same day President Truman called impractical the House Military Affairs Committee move to sidetrack universal military training legislation in favor of a campaign to outlaw peacetime conscription throughout the world, it is learned from the Associated Press, which further said: He expressed his views at a news conference when asked for his opinion about the proposal, which is gaining strength in the Committee.

He already has urged Congress to enact legislation requiring every able-bodied male youth to take one year of military training, and the Committee has been holding hearings on the proposed legislation since November.

The President gave no reasons for his belief it would not be practical to try to outlaw universal training everywhere, and in the absence of an explanation Representative Martin of Massachusetts said he would continue his fight for an international ban.

At the opening session on Feb. 18 of the Committee hearings on military training, Dr. Robert M. Hutchins, Chancellor of the University of Chicago, according to the Associated Press, urged an end to "un-American saber rattling."

Series B Savs. Bonds To Be Paid at Maturity

Secretary Vinson announced on Jan. 11 that United States Savings Bonds of Series B, which will be due for payment during 1946, will be paid at their face or denominational value as they mature ten years from their issue date, on presentation in accordance with the applicable regulations to any Federal Reserve Bank or Branch, the Treasurer of the United States, Washington 25, D. C., or to any qualified paying agent The Treasury Department advices add:

"The bonds do not increase in value after maturity and individuals who wish to continue their investment in similar bonds without interruption, such as United States Savings Bonds of Series E, F or G, should present their matured bonds for payment in the month of maturity and ask that the proceeds thereof be applied to the purchase of United States Savings Bonds of Series E, F or G.

"Bonds of Series E, F or G purchased with the proceeds of matured bonds of Series B will be issued in any form of registration authorized for bonds of the respective series, will be subject to the limitation on holdings applicable thereto, and will be dated as of the first day of the month in which the matured bonds are presented for payment. Any difference between the redemption value of the matured bonds and the purchase price of bonds of Series E, F or G will be paid to the owner of the bonds presented.

"Close relatives having possession of maturing bonds of Series B belonging to servicemen abroad are authorized to redeem such bonds for the purpose of purchasing bonds of Series E, F or G for the servicemen. Full instructions regarding procedure in any such case will be given on application to any Federal Reserve Bank or Branch.

"The original issues of Series B bonds during 1936 aggregated $493,075,050, maturity value, for which cash amounting to $369,806,287.50 was received into the Treasury. About 70% of the bonds originally issued remain outstanding at this time."

Postwar Taxation and Economic Progress

(Continued from page 1686)

issued or debt transferred to the Federal Reserve banks).

Others hold that debt is a major cause of "jitters." Not only should it not be extended but reurement should be a first order of postwar business. The middle ground takes the view that public credit is to be conserved and not squandered but that an unbalanced budget may be preferable to prolonged unemployment of men and resources. On this view, the budget should be balanced when production and income are good and more than balanced when production and income are excellent. Public expenditures should be carefully ordered on the theory that we cannot have all the good things of life as yet and must not use public credit to shake spoils from the government tree.

Taxation

I. *Objectives*

The following objectives or qualifications for postwar taxation are important:

1. Taxes should be fair; distinctions in tax burdens should be based on reasonable principles and not be arbitrary. This is important both for its own sake and the morale of the taxpayer. Progress in taxation is measured by the trend from irrational to rational sources of revenue.

2. Taxes should reduce inequalities in wealth, income and power. Wide inequalities are abhorrent to democracy. No postwar tax system is likely to be stable unless it satisfies the American conscience which is likely to be more, not less, sensitive to inequalities than heretofore.

3. Taxes should conserve the human resources that "man the works."

4. Taxes should preserve a wide market; they should not aggravate over-saving. Anyone viewing our wartime production achievements cannot doubt the enormous productive potential of our industrial system. Temporary "bottleneck" shortages should not obscure the important long-run fact.

5. Taxes should preserve incentives, They should leave enough margin between the return of the ambitious, on the one hand, and the slothful, on the other, to make ambition definitely worth while; they should allow enough return to the successful risk-taker over that to the "safe" investor so that risk-taking is definitely worth while. Particularly, those who innovate and take responsibilities should not be singled out for adverse treatment by the tax system.

6. Taxes should be as direct as feasible; in general, taxpayers react most sensibly to what they see and understand.

7. Direct taxes should be widely shared. Wide participation in government is desirable on both the voting and financial sides. Expenditures voted by the many and paid for exclusively by the few are demoralizing, certainly for those who pay and probably for those who do not.

8. Taxes should be adequate. We have had an unbalanced budget for fourteen years. That should not become a habit.

9. Tax reductions and tax increases serve as stimulants and narcotics to business, and these drugs should be administered so as to mitigate rather than aggravate business instability. Tax reductions should be reserved for depressions and tax increases should be applied, as far as possible, during prosperity.

Following World War I, taxes were repeatedly revised downward during the prosperous twenties. In the depths of depression we changed the trend and began "getting tough" with the tax system. On the theory that increased taxes are deflationary and decreased taxes inflationary, our historical procedure was the exact reverse of what it should have been.

If tax rates are not increased during a depression, taxation will automatically be reduced because of a shrinkage in the tax base. This in itself might exercise a beneficial counter-cycle influence. It is the sort of counter-cycle tax policy that is likely to prove most practical. It does involve the difficulty of the cyclical budget, about which more will be said presently.

It would be logical to go a step further and recommend that tax rates be reduced during a depression and increased during a boom. The change to stable tax rates would represent, however, a substantial step forward.

It is true that a cyclical budget-balancing program involves important political difficulties. The objective assumes a long-run conception and discipline on the part of Congress which might not be forthcoming. It would be "easy" for Congress to incur deficits during the years of low production, justifying this conduct on the ground that such deficits would have a wholesome economic effect. In years of large output, the corollary of this action might be ignored on the ground that still greater production would be possible and should be realized before any attempt were made to obtain a budgetary surplus.

Although the problems of balancing the budget over a series of years are undoubtedly impressive, they are not greater than those of attempting a budget balance "come hell or high water." Such an attempt would probably fail in its objectives and cause economic disruption besides. No program of budget-balancing which loses sight of the importance of the national income is well-advised, even from the standpoint of balancing the budget and that alone. It is necessary to take some risks (public as well as private) if the common objective of balancing the budget is to be realized. We may be able to stabilize the debt and pay some of it off, perhaps, but this happy consequence should be dependent upon the achievement of a satisfactory national income.

II. *Selection of Federal Taxes*

To obtain these objectives, which of the specific taxes should be given the leading role in the federal postwar tax system? Most critics have answered this question (and I think properly): "The personal income tax."

A. *The Personal Income Tax*

In many respects the personal income tax is "a natural" for the leading postwar role. All taxes come out of income sooner or later; it is the stuff of which taxes are made. The personal income tax is given to shifting less than most others—it stays put. Income is the medium in terms of which we reckon economic power. The income tax, with its exemptions and graduated rates, is well adapted to the objective of conserving purchasing power. It has certain limitations, particularly of administration, which will be discussed presently.

The answer to the question, which tax should be featured, is conditioned by time and place. In China where some 80% of the population is engaged in farming — largely subsistence farming — the answer would be a different one than in industrial and capitalistic present day United States. In socialistic Russia the sales tax is well suited to that country's economic needs. Fifty years ago when our country was more largely agricultural and when civic levels were lower the answer for the United States might have been different. But the income tax seems best adapted for the leading role in this country now.

Characteristics of the Kind of Income Tax Required to Play a Leading Role in the Postwar Tax System

If the income tax is to play a leading role in the postwar tax system, it must be characterized by a broad base, adequate standard rate, substantial graduation, no loopholes, and vigorous administration.

As to the broad base: with income tax exemptions of $500 for the taxpayer and his dependents and a national income of 140 billion dollars, fully 60% of the national income would be outside the tax base. Income escaping the tax base would consist of: (1) the personal exemptions allowed those who pay no taxes; (2) the personal exemptions allowed taxpayers; (3) the deductions (such as those for other taxes and contributions); (4) exempt income (such as interest on certain government bonds); and (5) underreporting and administrative leakage.

The refinement of income for tax purposes might be compared with the process of extracting radium from ore; after the deductions and exemptions and other allowances are disposed of, a scarcely visible base remains to be taxed. The base is pure surplus, sure enough, but even if it were all confiscated it would not pay for the cost of "running the government."

Our state income taxes, with their high exemptions and nominal rates on low incomes, are an example of taxation that provides mostly talk and very little revenue. We praise the income tax but rely on the property tax and sales tax to pay the teachers' salaries.

Importance of Standard Rate

Because the income structure is like a pyramid, with the bulk concentrated in the base, an adequate "standard" or first-bracket rate is very important for the revenue. Moreover, the first bracket, to which the standard rate applies, is usually the most stable element in the income base. With national income of about 140 billions and 1944 exemption and brackets, about two-thirds of the income base would be in the first bracket of taxable income.

Substantial Graduation

Enough income lies in the apex of the income pyramid for the use of substantial graduation in the income tax to add materially to the revenue. More important is the fact that the graduated feature is a means of reducing inequalities regarded as undesirable in a democratic nation. Reduced inequalities are important for their own sake, but they may also be necessary to maintain a proper balance between saving and spending. As previously observed, the principal check on progression is the need for preserving incentives. It can also be said that rates should not be carried upward to the point where Congress is not willing to enforce them effectively or apply them consistently. Whatever may be the effect of high rates on other incentives, there can be no doubt that they provide a powerful incentive to avoid and evade.

Elimination of Loopholes

If the personal income tax is to serve as the mainstay of postwar revenues, it should cover all income above personal credits. This means closing many loopholes now available to income recipients, especially the big income recipients. The income from government bonds, now in many cases exempt, should be made taxable. (This is important not only from the standpoint of equity but also from that of investment; the tax system should not favor the safest outlet for savings.) Municipal officials who see in this exemption only the gain in cheap money for public borrowing are taking too narrow a view of their self-interest.

Capital gains should be taxed like other income, with parity treatment for losses. The present system of permitting these gains to be wiped out by the death of taxpayer is unjustifiable. Transfers at death and by gift should be treated as realizations by decedents and donors at market values current at the time of transfer. (At present, the basis of assets received by an heir is their value as of the date of death and not their cost to the donor.) At the present time many capital gains are never realized. Stocks may remain in one family for generations and the values that accumulate as a result of corporate reinvestment never appear in the personal income tax base. The same is not equally true of losses, for in their case the taxpayer stands to gain by an early realization.

It is argued against the full taxation of capital gains that such procedure would impede enterprise. But this seems to be more a case of taxing wealth than of impeding business. Equal treatment of losses and a fair averaging system would go far toward the elimination of adverse effects in the taxation of capital gains. A high tax might discourage exchanges, but the elimination of the loophole which permits capital gains to be wiped out at death would tend to counteract this tendency. If gains must be realized sometime, the present is likely to appear as propitious a time as any.

Avoidance by dividing income among members of one's family should be checked by joint returns or some device producing equivalent results.

Stronger Administration

Stronger administration is a prime prerequisite of a postwar income tax scheduled for a major role. The income tax is criticized principally on the score of its complication and ease of avoidance. Objective evidence of income is available in the case of most recipients. In fact, since the war, payers of income not only provide information concerning income payments to the government but they also pay a large part of the tax (collection at the source). But a considerable portion of income, notably that received by farmers, individual businessmen, and professional men, is not covered by any checks. Information as to this income is mainly acquired by self-reporting and office and field audit. The auditing could be much more effective than it is. The policy of confining the policing of the income tax to points where large returns can be had for the effort must be replaced by one that seeks adequate policing to maintain the fairness of the system and the morale of the taxpayer.

A recent report of the Secretary of the Treasury submits evidence that federal taxes are now collected for 30 cents on $100. This is a fine record of economical administration. But it may be the occasion for circumspection rather than for congratulation.

A friend of mine told me recently that he was able to employ a maid only on condition that he would not disclose the facts about her income. How widespread this sort of avoidance is, no one knows. We do know that leakage in administration is the major limitation in the personal income tax.

B. *Death Taxes*

Death and gift taxes are probably a lesser impediment to production than the income tax. They can and should be strengthened by plugging loopholes and broadening the base of these levies. Estate and gift taxes should be combined into a single transfer tax with a single set of rates and exemptions. The use of life estates to skip a generation or more in transfer should be prevented, as it is in Great Britain. Some account must sooner or later be taken of the time factor in such transfers and the relative age of donor and donee. The death tax is the member of the federal tax system most ripe for a thorough overhauling.

C. *Business Taxes*

The two principal business taxes at the federal level at the close of the war were the excess profits tax and the corporate net income tax. The excess profits tax has now been repealed. Quite possibly it should have been retained until abnormal profits growing out of war conditions had ceased to exist. But this issue is closed. Of course the tax could have been recast to become a peacetime addition to the federal tax system. The main argument for such a policy is that industry is often not well policed by the forces of competition, and excessive prices result in excessive profits. But the excess profits tax, in addition to heavy administrative liabilities, carried a threat to industrial expansion by its failure to isolate monopoly from risktaking and efficiency profits.

The corporate income tax is probably more appropriate for peace-time use than the excess profits tax, but it also is open to some valid objections. It results in two taxes upon the stockholders, where only one applies to the bondholder. This has the unwholesome effect of encouragnig debt financing. No differentiation between large and small stockholders is possible. The final distribution of the corporate tax burden is uncertain; probably a considerable portion of it is shifted to consumers and wage earners in the form of higher prices and lower wages. The effect upon business expansion of high corporate as compared with high personal taxes is problematical, but the business tax is closer to management and is probably the more repressive of the two. The emphasis in business taxation should be upon levies which reach undistributed profits. Business taxation itself should be deemphasized in favor of personal taxation.

Personal taxes are based on the personal obligation of the citizen to his government; business taxes on the ideal that the government is a factor in business production. This factor of production, however, unlike the others, is determined not by the businessman but for him.

It has been contended that the corporate tax is a progressive levy because somehow or other it "comes out of" the rich. The progressive character of the corporate tax is uncertain, irregular, and inconsistent. Mention has been made of the uncertainty of its incidence. A consistently and regularly progressive tax will not only tax a $25,000 income at a higher rate than a $5,000 income, but it will assess all $25,000 incomes at the same rate. Our present system applies a much higher effective rate on an income of $25,000 consisting of dividends than on one consisting of interest, salary, or capital gains. It assesses no tax at all on $25,000 of interest from state and local bonds. To hold that taxes can be defended merely because rich people pay them, no matter how capricious the distribution, is to exemplify that sort of irresponsibility that threatens the successful operation of a mixed economy.

The treatment of undistributed earnings is perhaps the most difficult spot in the income tax system. Our present system, imposing two taxes on income passing through the corporation and only one on income reinvested, is un-

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Postwar Taxation and Economic Progress

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fair and an open invitation to corporate hoarding and avoidance of personal taxes. Not a few critics believe that corporate earnings should be taxed to the stockholder on a pro-rata basis when the earnings are reinvested. Undoubtedly they are right theoretically and perhaps their proposal is practical, though it is full of administrative and other difficulties and has no successful precedents anywhere.

A more conservative proposal, with some merit, seeks to eliminate the duplication in personal and corporate income taxes and the discrimination in favor of undistributed income all at one stroke. The corporate tax would be confined to a withholding levy on dividends and an advance payment upon the income retained by the corporation for reinvestment. Capital gains and losses would be treated like other income, and those "realized" by death and gift transfer would come under this rule. The resulting integration would be far from perfect; an individual with a large income would escape (temporarily, at least) by corporate reinvestment, the payment of surtaxes above the withholding rate. But the degree of integration would be much greater than at present, and duplication would be eliminated. Combined with a rigorous treatment of capital gains, such a system would be a great advance over what we now have.

All there is to tax in this country is the country's wealth and income. This is all owned or received by individuals in some form or other. Nothing can be done to reach this wealth and income by taxing corporations that cannot also be done by taxing individuals. If the desire is to tax property income or even profits alone at a higher rate than that applicable to other income, this too can be done through the individual income tax. By the use of the personal tax for most of our revenue a much fairer distribution of the total tax load can be achieved.

D. *Sales Taxes*

Sales taxes, special or general, are a convenient means of getting large revenues without arousing much tax-consciousness among taxpayers. However, they are the least equitable of the major alternative sources of federal revenue, and they cut into the spending power of those who must be relied upon to provide a postwar market. Some retention of these levies will probably be necessary to provide stability, diversity, and adequacy in the postwar revenue system, but they should be confined to non-essentials (liquor, tobacco, and perhaps gasoline) and should be kept to a minimum. State and local taxes are primarily regressive (resting more heavily on the little than on the large taxpayer), and the federal system should correct rather than aggravate this regressivity.

Liquor and tobacco taxes are subject to some criticism, but they probably warrant a substantial place in the future revenue system. Few people believe that cheap whiskey would be a great asset to the nation. Both liquor and tobacco are largely consumed by adults and are not a special burden on the family man. Both represent consumption that could be foregone without impairing health and decency standards.

Opposition to consumption taxes includes a negative reaction to tariffs. An additional ground for a negative conclusion in this case is that tariffs are bad for international relations Parenthetically, it may be observed that, when we are ready for the surrender of some sovereignty to an international government, we might as well start with the rules of international trade.

E. *Incentive Taxation*

Many ingenious plans have been submitted by which it is proposed to use taxation to reinforce incentives rather than to undermine them. It is proposed, for example, that businesses should contribute to government according to their idle capacity and employees. Plans to levy taxes inversely to the size of the payroll or number of employees or additions to employees are very numerous. One of them was given a considerable trial in Germany before Hitler but without noteworthy success. Another popular pattern of incentive taxation is that which proposes to tax idle money or hoarding.

It seems highly doubtful that the economic virtures can be called into existence by negative treatment. People work enthusiastically to develop new ideas, and risk their fortunes on new enterprises when they have confidence in the future. That kind of confidence can hardly be engendered by taxing optimism and by showing the potential investor two ways instead of one in which he can lose his resources. Industry is a creative endeavor, and it flourishes with the enthusiasm of its participants; such enthusiasm cannot be generated by the application of a lash. Moreover, any notion that hoarding is more than a symptom of the economic problem seems quite illusory.

That the American tax system has been constructed with little regard for incentives is evident enough to anyone who takes the trouble to examine it. Mention has been made of tax-exempt securities, a case where tax privileges are given the most secure form of investment. Then there is the matter of fluctuating business and personal income. Because a person or a business happens to reap the rewards of long effort in one particular year, he or it should not be punished by the graduated scale of a progressive tax. The business that experiences alternating losses and profits should pay no higher taxes than the concern with an equivalent but steady net income.

It is true that our income tax laws now permit a carry-over of net business losses for two years. And the 1942 act permits a carry-back of such losses for an equal period—much the most generous allowance that has ever been in the American law. But from 1933 to 1938, when losses were greatest, no carry-over at all was allowed; and our present period is short compared with that of the British, who permit net losses to be carried forward for six years.

The personal income tax should provide some periodic adjustment to eliminate, or at least mitigate, the discrimination against the recipients of fluctuating as compared with stable income. This is important in the interest of both equity and incentives, and it is a condition precedent for sound and reasonable practices in the taxation of capital gains. Classifying some gains as casual (nonrecurrent) and excluding them from income taxation, as in the British practice, takes hold of the problem at the wrong end. Almost all gains are casual in some degree. Casual gains should be taxed but with due regard for their casual character. The techniques of an averaging system are difficult, but a combination of a carry-over of exemptions and losses for the lower brackets and an additional privilege of averaging in the case of incomes above $5,000 seems to offer no prohibitive difficulties. Averaging might take the form of permitting the taxpayer to sum his taxes over a period of years, calculate what his tax bill would have been if his income had been distributed evenly among these years, determine the difference between the two, and claim the difference as a refund or tax credit.

Some use of the tax system to promote new business or small business, or both, is highly desirable. Small business is greatly handicapped at present by the inaccessability of the capital market. It could be allowed some immunity from a tax on undistributed earnings. The full tax on capital gains would make the privilege a temporary one only. If the corporate tax is retained and no other form of aid for small business is developed, a graduated rate in the corporate levy can be employed.

There is abundant testimony from the business world that excellent junior officials of going concerns, who would have started business for themselves 25 years ago, now prefer the security of salaried jobs. They also prefer secure investments. The days of high adventure in our economic life cannot and probably should not be restored, but some element of this dynamic spirit we should seek to preserve. At least it can be said that, if it is possible to give some support to incentives through the tax system without sacrificing other important objecives, that is definitely worth doing.

There is a difference between taxing business and taxing wealth. It is not inconsistent to advocate lighter taxes on one and heavier taxes on the other. Business provides us with our tax base, from which all the social services are supported, and it provides us with jobs. We are not equally dependent upon wealth. A million dollars in the hands of Henry Kaiser is much more beneficial than a million dollars in the hands of Doris Duke.

III. *State and Local Finance*

As to the highly varied field of state and local finance, time permits only one or two suggestions here. States and municipalities that have been casting about for new sources of revenue and experimenting with dubious sales and gross income taxes, might consider the possibility of developing a new species of tax—a net income tax without exemptions and with no deductions except for expenses involved in creating the income. This would provide a broad base upon which a low flat rate would provide very substantial revenue. This type of tax would have important advantages over the property tax—it would be truly proportional whereas the general property tax, in practice, is regressive. The tax would not, like the more conventional form, reduce inequalities in income, but the leading role in accomplishing this purpose must be left to the Federal government. The suggested differentiation in type of levy would counteract the objection that state and local income tax development constitutes double exploitation of a field already exhaustively tilled by the Federal government. If the proposal is criticized because it includes the necessities of life in the tax base, it may be recalled that neither the property tax nor the sales tax provide any exemptions.

IV. *Conclusion*

Our approach to the tax problem places much emphasis on the factor of timing. The approach calls for some concessions to industrialists in the current levies of business and personal taxes. This is to give them adequate tools with which to serve the social interest in production. When they sell out (capital gains tax) or die out, the tax system will catch up with them. This supports the view that the businessman must function as a trustee and that the ladder of opportunity must be protected. It is in the interest of responsible business leadership and a dynamic economy.

This program may be criticized on the score that it involves shifting tax burdens from the rich to the poor. But it is not apparent that a combination of a reduced sales tax, lower tariffs, higher estate taxes, plugging loopholes, moderation of income tax rates, and the integration of personal and corporate taxes will result in a net effect of shifting taxes from the rich to the poor. And even if they did, we ought not be so exclusively absorbed with the problem of distribution (of economic rewards after taxes) that we pay no heed at all to the effect of taxes on what there is to distribute. A tax program that resulted in more income for everyone might be defended even though it did not go so far in reducing inequalities as some alternative program.

Taxation may be regarded as nothing but warfare between the rich and the poor, each seeking to shift a burden to the other. We have sought rather to develop a program in the social interest, a program that will be of advantage to all groups in the long run.

GOP Normalcy Means Chaos: Wallace

(Continued from first page)

dore Roosevelt. The reactionary leadership of the Republican party has long been determined never to make that mistake again. They are true to their big stockholders. To them, property always must come first. In their blind adherence to their reactionary tradition, they would never knowingly nominate a real progressive—even for purposes of winning an election. They lost out to Wendell Willkie—and to this very day, the reactionary Republican leadership fills the air with imprecations and maledictions every time the name of Wendell Willkie is mentioned.

The greatest disciple of Andrew Jackson was Franklin Delano Roosevelt.

Speaking of Andrew Jackson, Franklin Roosevelt once said: "They loved him for the enemies he made. An overwhelming proportion of the material power of the nation was arrayed against him. The great media for the dissemination of information, and the molding of public opinion, fought him. Haughty and sterile intellectualism opposed him. Hollow and outworn traditionalism shook a trembling finger at him. It seemed sometimes that all were against him—all but the people of the United States."

Those were Roosevelt's words about the immortal Jackson. But history, in repeating itself, also writes these words as an epitaph to the immortal Roosevelt.

It was just a year ago, lacking three weeks, that Franklin Roosevelt was taken from us. Our memories of him are fresh and alive. And we here tonight must resolve to keep fresh and alive the heritage he left us.

The most precious things in this heritage are the people's fight for real political and economic democracy—and the people's fight for a strong United Nations Organization to provide and maintain a peace of abundance.

These two fights have been carried on unceasingly by Franklin Roosevelt's successor—Harry Truman.

I know that at times he has felt as Roosevelt felt—that they are all against him. And as the fight becomes more intense, he will feel this more and more. But Harry Truman can find courage as well as comfort in the knowledge that he is fighting in the brave and goodly company of Jefferson, Jackson, Lincoln, Wilson and Roosevelt.

No President can hit hard in the people's cause without being reviled. But now is the time when hard blows must be struck. Now is the time for us to earn the bitter opposition of selfish men of special interests.

A Glance at Coming Election

And Mr. President, I know that you will forgive me, here, for taking a little glance ahead at Tuesday, November fifth. We can stand the reviling, the insults—yes, even the lies—if we deserve and get the people's votes on that day.

The people believe as you do, Mr. President, that atomic energy must be under civilian control—so that it may be a great blessing and not a curse. The people dislike all this talk of inevitable war. And the people don't want industrial strife.

The people want jobs that provide a decent annual income—jobs that produce a fair return to those who own the tools of production. They rejoice with you, Mr. President, that so many of the strikes have been fruitfully settled—so that we, as a nation, can now get to work on the biggest job of all—that of assuring full production and full employment. Those who put property before people naturally decry the words—full production and full employment. They say these words are merely the catch phrases of demagogues. But the great voice of the people says differently. And as Jefferson and Jackson and Roosevelt knew and understood so well, that great voice speaks true—and rings true.

Also, Mr. President, the people rejoice in your forthright statement that the policy of your Administration is steadfastly to avert even the causes that make for war. The people do not want to fight another war either with or against England or Russia—or with or against any combination of nations. They seek the open door of good neighborliness; they seek a well-founded and mutual confidence; they seek only peace. And they want to make the United Nations Organization a workable instrument to achieve these ends.

Peoples elsewhere throughout the world will demand the same from their leaders. They will demand this with a tremendous voice that arises from their combined sacrifice and suffering.

Wants Abundance for All

But to win this peace of continuous full profitable production and full gainful employment here at home—to win the peace of world cooperation based upon mutual confidence—to win the people's peace of abundance for all—we, as Democrats, must give effective and determined and fighting leadership.

We know that we cannot trust the reactionary Republican leadership to lead the Nation in this post-war period. We know what sins this leadership has committed upon the people in the name of Republican normalcy. This is the normalcy that gave us the senseless Republican tariff policies of the twenties and early thirties—and we know that the reactionary Republicans, like the Bourbons, never forget. We know that a Republican congressional victory next fall would have a gravely disturbing effect on the whole international situation—for the traditional Republican isolationist policies would inevitably lead to world disaster. We know, finally, that this brand of normalcy will lead, as always, to boom, bust—and chaos.

But if we Democrats seek to continue to lead, we must be worthy as leaders. We must be the

Truman Calls for Unity

(Continued from first page)
remained as guiding principles for the Democratic Party.

More recently there appeared another champion of social justice to revive and revitalize these principles — Franklin Delano Roosevelt!

If that great humanitarian were among us today he would bring us a message of courage and faith. He would bring us a challenge to improve the lot of mankind everywhere. He would say, "Fight on!"

We of the Democratic Party must meet that challenge. Even though tremendous progress has been made, we must continue to fight on to attain our basic objectives—human freedom and human security. This is one fight which we must and will win.

Our Democratic Party became great and powerful as a *progressive* party—one pioneering in new social fields and determined to abolish the tragic inequities of the past.

Party Must Go Ahead

To hold our leadership, and the support of the American people, we must continually advance toward higher goals in keeping with our liberal heritage.

Political parties are the instruments through which democracy works. Our party system remains as one of the massive foundations of our liberty. Only the free play of political opposition can guarantee the survival of civil freedom.

Therefore, upon all of us rests a solemn responsibility to preserve our party system on a sound and wholesome basis. To achieve this, the leadership of all political parties must face the urgent issues frankly, and act solely in accordance with our national welfare.

Our Democratic Party has a long and proud record of achievement. But for continued success, we must live in the present and work for the future. As we seek to improve the social order, our policies must remain dynamic, ever sensitive to the impact of changing conditions.

The domestic program of this Administration has been a program to make the system of free enterprise work. The Democratic Administration has been quick to seek out the danger spots which threaten the system of free enterprise—and remove them. In a very practical sense it has made enterprise free where it was not free before and it has encouraged private competition where there was only monopoly.

We are seeking to establish higher standards of living—a new health program, a new educational and social security program, an increased minimum wage, adequate housing, a further development of our natural resources, and above all, a strong and progressive America now and for all time.

Today America is in a period of transition. The aftermath of war has brought new and pressing problems.

Sees Inflation Danger

Without question, one of the most serious of these problems is the danger of a disastrous inflation and subsequent depression in our country.

Unless we can keep prices and rents under control until we have normal production flowing from our factories, our economic stability is in peril. But we Americans have every right to be confident of our ability to check inflation and to get production going full blast. During the war, in spite of the greatest inflationary pressures in our history, we learned that the cost of living could be kept in line. We must do as well in time of peace.

Our progress toward that goal has been delayed by the technical bottlenecks that must be expected in reconverting our gigantic industrial machine from war to peacetime production.

But it is also being delayed, even more seriously, by doubt, fear and, in some cases, just plain selfishness.

Wage-Price Policy

To break both the technical and psychological bottlenecks, your Administration announced last month a new policy concerning wages and prices. That plan is now going into operation. I am confident that it will pave the way for the greatest outpouring of consumer goods that the world has ever seen. It gives all of us—businessmen, workers and farmers—assurance that wage and price adjustments will be made quickly when needed. With the knowledge that all groups in the country are assured a fair and equitable return, we can expedite our vast production job, and still hold the line against runaway rents, soaring prices and prohibitive business costs.

Whenever conflicts between selfish and national interests arise, our country must come first. We will never permit our national welfare to be wrecked upon the rock of special privilege. Only by dedicating ourselves to the principle of national unity can we keep America strong and free.

For Party Unity

And this same basic principle applies to the Democratic Party. As in the nation at large, there is diversity of opinion among us, but the fundamental principles of the Democratic Party bind us together in a unity of purpose—an inflexible determination that our Party shall advance to new and greater achievements.

In order to accomplish this, we must keep faith with the American people. They have given us grave responsibilities. And we Democrats must continue to merit the confidence of our people. This party of progress in a real two-party system—the party that offers hope of progress for all the people, regardless of color or creed. Into this party we must welcome all independent Republicans—all independent progressives everywhere — who seek progress and can not find it elsewhere.

Hits Coalition in Congress

In our own party, we have been done great harm by those who have joined in a coalition against progress—by those who wrap themselves with the traditions of Jefferson and Jackson, but whose actions belie their pretensions.

So to keep our own party on the side of progress, we must call upon those Democrats who have been harmful to our cause to return to the way of Jefferson and Jackson—and to honor our side of the fence with their "mugs" as well as their "wumps."

I say this without rancor because I spent some years on the mugwump fence myself—one of those seeking progress and who found a door to opportunity—and the door was labeled "The Democratic Party."

The Democratic party must welcome every American, white and black, who believes in the rights of man. And to continue its national leadership, it must be irrevocably committed to the ideals and the down-to-earth practicality of Jefferson, Jackson, Lincoln, Wilson and Roosevelt. Then the Democratic party can face the future unafraid—secure in the people's support. Then, we as a Nation can turn over to our children an abundant America in an abundant world—dedicated to continuous progress and to lasting peace.

Administration will not be found wanting!

Under our party system, political responsibility must rest with the President and with the majority in the Congress. To meet this responsibility, all our members in the Congress must cooperate wholeheartedly and help carry out our Party platform. Unless this is done, the Party program is delayed. I cannot make too strong my plea for Party unity and Party responsibility!

Under our Democratic leadership we have set a goal of 2,700,000 new homes by the end of 1947—the greatest home construction program in the history of this or any other country.

Housing Legislation

We have proposed legislation for this task. That legislation is now before the Congress. I have strongly urged its prompt enactment. In this connection, there are two proposed amendments to the pending housing measure which also are of vital importance: One to provide premium payments for expanded production of materials, the other to prevent further speculation in existing housing.

There is constant pressure for an increase in the price of building materials. No one questions that some adjustments—both up and down—are needed, if we are to complete our building program at full speed. But price increases all along the line are clearly out of the question. The price of homes already is too high.

We must stimulate home building by methods which will not send prices sky-rocketing far beyond the means of the average citizen. That is the reason for premium payments, which would be used to break bottlenecks.

The price controls we advocate are aimed specifically at halting further inflation in real estate. We urge that the future sale price of any home be made the ceiling price on that home for the duration of the emergency. Under this plan, any home-owner could sell his property in a free and open market. However, such property could not then be resold by a speculator for a higher price resulting in a quick and unearned profit.

The veterans returning from battlefronts all over the world deserve the opportunity to obtain homes—and at reasonable prices. They must not become the victims of speculators. I am satisfied that the American people intend to give them a fair break. I am convinced that the Veterans Emergency Housing program can and will succeed.

For a Balanced Budget

The problem of reconversion involves much more than a physical change-over to the production of civilian goods. Our financial policies are also being adapted to meet our new peacetime needs. These policies will help greatly in maintaining high levels of production, employment and national income.

We are on our way to a balanced budget and further reduction in the public debt. Full production, maximum employment and a high national income will make this sound program possible. In the end, that is the only way to meet the Government's financial obligations and at the same time lessen the taxpayer's burden.

No phase of economic life has been so completely disrupted as our international economic relations. During the war, the bulk of foreign trade was done by or for governments. Here, too, there must be reconversion. World trade must be restored—and it must be returned to private enterprise.

We need a world in which all countries can do business with each other, and with us. That means giving other countries a chance to reconstruct their war-shattered lands. It also means maintaining orderly exchange arrangements through the cooperation of the United Nations. Already we have made substantial progress. Only a few days ago, at Savannah, Ga., the International Bank and the International Monetary Fund, created at Bretton Woods, became organized institutions.

The financial policies we are following are adapted to the needs of our time. I feel confident that they will help make this a strong and sound country in a free and progressive world.

The United States of America has achieved world leadership. For that result the Democratic Party, as the party of enlightened internationalism, is primarily responsible. We must maintain that leadership. And the Democratic Party must continue to lead the way.

A tremendous price has been paid for the peace and security we Americans enjoy tonight. Payment began long ago by our brave Allies, who first bore the brunt of all-out aggression. At that time, our isolationists were still debating, and almost defeating, most efforts of Democratic leaders to improve our national defenses.

I say, without any partisan rancor, the cold record clearly reveals that our political opponents voted overwhelmingly against the most essential defense measures. Of course, when subsequent events proved beyond question their shortsightedness, most of our opponents changed their policy.

Yet many Republicans, of all people, then charged the Democratic Administration with failure to prepare more adequately for events which they themselves said would never occur!

Let us be tolerant, however, of the inconsistencies of man. Let us rather concentrate upon the urgent problems before us.

U. S. Must Lead

America must lead the way to a better world order. We seek increasingly close friendship with all nations. And we shall strengthen the foundations of the United Nations. Surely, we shall never retreat merely because of dangers along the road to peace and progress. Despite opposition and all difficulties, we shall attain our goal—a prosperous and peaceful world.

At home every one of us should subordinate the differences of the past to expedite the progress of the future. Let us devote ourselves to the important problems of peace, and to the promotion of the general welfare. They go hand in hand. For without lasting peace in the world, prosperity and security at home become temporary illusions. And a repetition of such a tragedy must not occur!

The solution of the tremendous social problems of our day should not be a partisan affair. No one class, group, or party can hope to solve all the complicated problems facing America. Their solution requires the wholehearted cooperation of every element within our great country. And America will reach its high destiny only if we remain strongly united in the endless quest for justice.

Above and beyond all political considerations, Americans deeply yearn for a sound and lasting peace. Not merely the future of our political parties is at stake in the coming peace settlements. The future welfare of our country is at stake. The happiness and the lives of your children and mine are at stake. For their sake, for America, and for all humanity, let us rededicate ourselves to the noble cause of peace.

As in Jackson's time, we Americans must continue to live courageously. We should emulate the valor and the determination of our forefathers—those brave men who conquered the physical frontiers of this vast continent.

The modern economic, political and social frontiers, which still confront all of us, offer an even greater challenge to our moral stamina and to our intellectual integrity. This challenge also must be met. This victory must be won. I am confident that, with Divine guidance, no problem on earth exists that will not yield to the intelligence, courage and eternal faith of free men.

Famine Group to Act; Hoover in Paris for Tour of Europe

Herbert Hoover, Honorary Chairman of President Truman's Famine Emergency Committee who left by plane on Mar. 17 to visit the hunger depressed areas of Europe in an effort to determine the actual needs for assistance existing in each country which has sought aid from the United States, arrived in Paris on Mar. 19. The night before his departure Mr. Hoover made an address by radio in which he appealed to the people of this nation to cooperate to the fullest extent in the gigantic task of providing food for the starving millions. He stressed the importance of conserving the amount of grain fed to livestock and of increasing available fats. But, he added, "Even with success in these measures, we have insufficient food for all the millions of people, and every atom of increase means life and hope somewhere."

The former President also appealed to the other countries of the Western Hemisphere to join the United States in eating fewer cereals in order to provide additional food for Europe. On Mar. 12, according to Associated Press Washington advices, President Truman requested 125 citizens throughout the United States to serve on a famine emergency council to supplement the work of the committee headed by Mr. Hoover. These Americans were asked to take the lead in their organizations and communities in explaining needs and methods of food conservation.

Within the Famine Emergency Committee which consists of 13 members, an executive committee was set up on Mar. 12, composed of Chester C. Davis, Chairman; Eugene Meyer, publisher of the Washington Post, Vice Chairman; James W. Young, Miss Anna Lord Strauss and George H. Gallup. Mr. Davis is appealing to Americans to plant victory gardens again this year. In the party which accompanied Mr. Hoover to Europe was Hugh Gibson, former Ambassador to Poland and Belgium.

Before starting on his tour on March 17 Mr. Hoover said according to the New York "Times" that the present crisis was worse than that after World War I because "it involves 500,000,000 people and the last time it involved 400,000,000." The "Times" also quoted him in part as saying:

"The next four months will be the critical period. We will have a breathing spell when the harvest comes in next July in the Northern Hemisphere, so that all American efforts have to be concentrated over the next four months. The major problem is to see in what manner we can stretch the supply over the famine area. The problem is greater [than that of the last war] because the war has been longer and the agriculture of the countries in the war has degenerated for a longer period, so that the crops have been steadily less year by year."

Moody's Bond Prices and Bond Yield Averages

Moody's computed bond prices and bond yield averages are given in the following table.

MOODY'S BOND PRICES
(Based on Average Yields)

1946— Daily Averages	U.S. Govt. Bonds	Avge. Corporate*	Corporate by Ratings* Aaa	Aa	A	Baa	Corporate by Groups* R. R.	P. U.	Indus.
Mar. 26	125.58	119.82	123.99	122.50	119.41	114.08	117.20	120.22	122.29
25	125.67	119.82	123.99	122.50	119.41	114.08	117.20	120.22	122.29
23	125.74	119.82	123.99	122.50	119.41	114.08	117.20	120.22	122.29
22	125.74	119.82	123.77	122.29	119.41	114.08	117.20	120.22	122.09
21	125.74	119.82	123.77	122.50	119.20	114.08	117.00	120.22	122.09
20	125.77	119.61	123.56	122.29	119.00	114.08	116.80	120.22	122.09
19	125.80	119.61	123.56	122.29	119.00	114.27	117.00	120.22	122.09
18	125.80	119.82	123.77	122.50	119.20	114.27	117.00	120.22	122.29
16	125.80	119.82	123.77	122.29	119.20	114.27	117.00	120.22	122.09
15	125.80	119.82	123.77	122.29	119.20	114.27	117.00	120.22	122.29
14	125.80	119.82	123.77	122.29	119.20	114.27	116.80	120.22	122.29
13	125.81	119.82	123.77	122.29	119.20	114.46	117.00	120.22	122.29
12	125.84	119.82	123.77	122.29	119.20	114.46	117.00	120.22	122.29
11	125.86	119.82	123.77	122.50	119.20	114.27	116.80	120.43	122.50
9	125.86	119.82	123.77	122.50	119.20	114.46	116.80	120.43	122.50
8	125.86	119.82	123.56	122.50	119.20	114.46	116.80	120.43	122.29
7	125.81	119.82	123.56	122.29	119.20	114.46	116.80	120.22	122.29
6	125.81	119.82	123.56	122.29	119.20	114.27	116.80	120.22	122.29
5	125.81	119.82	123.56	123.29	119.20	114.46	116.80	120.22	122.29
4	125.81	119.82	123.56	122.29	119.20	114.27	116.61	120.22	122.29
2	125.84	119.61	123.56	121.88	119.20	114.08	116.41	120.22	122.29
1	125.84	119.61	123.56	121.88	119.20	114.27	116.61	120.22	122.09
Feb. 21	126.02	120.22	123.34	121.88	119.00	114.27	116.41	120.22	122.09
15	126.14	119.61	123.56	121.88	119.20	114.27	116.80	120.02	122.29
8	126.15	119.61	123.34	121.88	119.20	114.27	116.41	120.02	122.29
1	126.05	119.20	123.34	121.46	118.80	113.50	115.82	119.41	122.29
Jan. 25	126.28	119.00	123.12	121.25	119.00	113.31	115.63	119.41	122.09
18	126.06	118.60	122.50	120.84	118.60	112.93	115.24	118.80	121.88
11	126.11	118.20	122.09	120.63	118.20	112.56	115.04	118.40	121.46
4	125.18	117.80	121.67	119.82	117.60	112.37	114.66	117.80	120.84
High 1946	126.28	119.82	123.99	122.50	119.41	114.46	117.20	120.43	122.50
Low 1946	124.97	117.60	121.46	119.82	117.40	112.19	114.46	117.80	120.63
1 Year Ago									
Mar. 26, 1945	122.16	115.04	121.04	118.60	114.85	106.21	111.25	114.27	119.41
2 Years Ago									
Mar. 25, 1944	119.80	111.44	118.20	116.61	111.44	100.31	104.83	113.39	116.41

MOODY'S BOND YIELD AVERAGES
(Based on Individual Closing Prices)

1946— Daily Averages	U.S. Govt. Bonds	Avge. Corporate*	Corporate by Ratings* Aaa	Aa	A	Baa	Corporate by Groups* R. R.	P. U.	Indus.
Mar. 26	1.36	2.66	2.46	2.53	2.68	2.95	2.79	2.64	2.54
25	1.36	2.66	2.46	2.53	2.68	2.95	2.79	2.64	2.54
23	1.35	2.66	2.46	2.53	2.68	2.95	2.79	2.64	2.54
22	1.35	2.66	2.47	2.54	2.68	2.95	2.79	2.64	2.55
21	1.35	2.66	2.47	2.53	2.69	2.95	2.80	2.64	2.55
20	1.35	2.67	2.48	2.54	2.70	2.95	2.81	2.64	2.55
19	1.35	2.67	2.48	2.54	2.70	2.94	2.80	2.64	2.55
18	1.35	2.66	2.47	2.53	2.69	2.94	2.80	2.64	2.54
16	1.35	2.66	2.47	2.54	2.69	2.94	2.80	2.64	2.55
15	1.34	2.66	2.47	2.54	2.69	2.94	2.80	2.64	2.54
14	1.34	2.66	2.47	2.54	2.69	2.94	2.81	2.64	2.54
13	1.34	2.66	2.47	2.54	2.69	2.93	2.80	2.64	2.54
12	1.34	2.66	2.47	2.54	2.69	2.93	2.80	2.64	2.54
11	1.34	2.66	2.47	2.53	2.69	2.94	2.81	2.63	2.53
9	1.34	2.66	2.47	2.53	2.69	2.93	2.81	2.63	2.53
8	1.34	2.66	2.48	2.53	2.69	2.93	2.81	2.63	2.54
7	1.34	2.66	2.48	2.54	2.69	2.93	2.81	2.64	2.54
6	1.34	2.66	2.48	2.54	2.69	2.94	2.81	2.64	2.54
5	1.34	2.66	2.48	2.54	2.69	2.93	2.81	2.64	2.54
4	1.34	2.66	2.43	2.54	2.69	2.94	2.82	2.64	2.54
2	1.34	2.67	2.48	2.56	2.69	2.95	2.83	2.64	2.54
1	1.34	2.67	2.48	2.56	2.69	2.94	2.82	2.64	2.55
Feb. 21	1.33	2.67	2.49	2.56	2.70	2.94	2.83	2.64	2.55
15	1.32	2.67	2.48	2.56	2.69	2.94	2.81	2.65	2.54
8	1.32	2.67	2.49	2.56	2.69	2.94	2.83	2 65	2.54
1	1.33	2.69	2.49	2.58	2.71	2.98	2.86	2.68	2.54
Jan. 25	1.31	2.70	2.50	2.59	2.70	2.99	2 87	2.68	2.55
18	1.33	2.72	2.53	2.61	2.72	3.01	2.89	2.71	2.56
11	1.32	2.74	2.55	2.62	2.74	3.03	2.90	2.73	2.58
4	1.38	2.76	2.57	2.66	2.77	3.04	2.92	2.76	2.61
High 1946	1.40	2.77	2.58	2.66	2.78	3.05	2.93	2.76	2.62
Low 1946	1.31	2.66	2.46	2.53	2.68	2.93	2.79	2.63	2.53
1 Year Ago									
Mar. 26, 1945	1.65	2.90	2.60	2.72	2.91	3.38	3.10	2.94	2.68
2 Years Ago									
Mar. 25, 1944	1.83	3.09	2.74	2.82	3.09	3.70	3.46	2.96	2.83

*These prices are computed from average yields on the basis of one "typical" bond (3¼% coupon, maturing in 25 years) and do not purport to show either the average level or the average movement of actual price quotations. They merely serve to illustrate in a more comprehensive way the relative levels and the relative movement of yield averages, the latter being the true picture of the bond market.

NOTE— The list used in compiling the averages was given in the Nov. 22, 1945 issue of the "Chronicle" on page 2508.

Electric Output for Week Ended March 23, 1946 8.7% Below That for Same Week a Year Ago

The Edison Electric Institute, in its current weekly report, estimated that the production of electricity by the electric light and power industry of the United States for the week ended March 23, 1946, was 4,017,310,000 kwh., which compares with 4,401,716,000 kwh. in the corresponding week a year ago, and 3,987,877,000 kwh. in the week ended March 16, 1946. The output for the week ended March 23, 1946 was 8.7% below that of the same week in 1945.

PERCENTAGE DECREASE UNDER SAME WEEK LAST YEAR

Major Geographical Divisions—	Week Ended March 23	March 16	March 9	March 2
New England	6.1	4.2	5.1	1.9
Middle Atlantic	3.6	3.0	5.7	4.3
Central Industrial	13.6	13.5	15.7	15.9
West Central	§0.7	1.2	2.4	1.9
Southern States	8.9	9.9	11.9	11.8
Rocky Mountain	§4.0	§1.2	1.6	§1.1
Pacific Coast	10.8	13.4	13.4	13.1
Total United States	8.7	9.3	11.1	10.6

§Increase.

DATA FOR RECENT WEEKS (Thousands of Kilowatt-Hours)

Week Ended—	1945	1944	% Change under 1944	1943	1932	1929
Dec. 1	4,042,915	4,524,257	—10.6	4,560,158	1,518,922	1,806,225
Dec. 8	4,096,954	4,538,012	— 9.7	4,566,905	1,563,384	1,840,863
Dec. 15	4,154,061	4,563,079	— 9.0	4,612,994	1,554,473	1,860,021
Dec. 22	4,239,376	4,616,975	— 8.2	4,295,010	1,414,710	1,637,683
Dec. 29	3,756,942	4,225,814	—11.0	4,337,287	1,619,265	1,542,000
Week Ended—	1946	1945	% Change under 1945	1944	1932	1929
Jan. 5	3,865,362	4,427,281	—12.7	4,567,959	1,602,482	1,733,810
Jan. 12	4,163,206	4,614,334	— 9.8	4,539,083	1,598,201	1,736,721
Jan. 19	4,145,116	4,588,214	— 9.7	4,531,662	1,588,987	1,717,315
Jan. 26	4,034,365	4,576,713	—11.9	4,523,763	1,588,853	1,728,208
Feb. 2	3,982,775	4,538,552	—12.2	4,524,134	1,578,817	1,726,161
Feb. 9	3,983,493	4,505,269	—11.6	4,532,730	1,545,459	1,718,304
Feb. 16	3,948,620	4,472,298	—11.7	4,511,562	1,512,158	1,699,250
Feb. 23	3,922,796	4,473,962	—12.3	4,444,939	1,519,679	1,706,719
March 2	4,000,119	4,472,110	—10.6	4,464,686	1,538,452	1,702,570
March 9	3,952,539	4,446,136	—11.1	4,425,630	1,537,747	1,687,229
March 16	3,987,877	4,397,529	— 9.3	4,400,246	1,514,553	1,683,262
March 23	4,017,310	4,401,716	— 8.7	4,409,159	1,480,208	1,679,589
March 30		4,423,478		4,408,703	1,465,076	1,633,291

Civil Engineering Construction Totals $105,931,000 for Week

Civil engineering construction volume in continental United States totals $105,931,000 for the week ending March 21, 1946 as reported to "Engineering News-Record." This volume is 42% above the previous week, 349% above the corresponding week of last year, and 9% above the previous four-week moving average. The report issued on March 21 continued as follows:

Private construction this week, $53,650,000 is 17% above last week and 905% above the week last year. Public construction, 81% greater than last week and 180% above the week last year. State and municipal construction 59% greater than last week, is also 1,004% above the 1945 week. Federal construction, 150% above last week and 14% above the week last year.

Total engineering construction for the twelve-week period of 1946 records a cumulative total of $845,371,000, 147% above the total for a like period of 1945. On a cumulative basis, private construction in 1946 totals $552,709,000, 406% above the total for 1945. Public construction, $292,662,000, is 21% greater than the cumulative total for the corresponding period of 1945 as state and municipal construction, $196,177,000 to date, is 439% above 1945. Federal construction, $96,485,000, dropped 52% below the 12-week total of 1945.

Civil engineering construction volume for the current week, last week and the 1945 week are:

	Mar. 21, 1946	Mar. 14, 1946	Mar. 22, 1945
Total U. S. Construction	$105,931,000	$74,769,000	$23,559,000
Private Construction	53,650,000	45,893,000	5,338,000
Public Construction	52,281,000	28,876,000	18,221,000
State & Municipal	35,109,000	22,014,000	3,181,000
Federal	17,172,000	6,862,000	15,040,000

In the classified construction groups, six of the nine classes recorded gains this week over the previous week as follows: waterworks, sewerage, bridges, commercial buildings, earthwork and drainage, and highways. Seven of the nine classes recorded gains this week over the 1945 week as follows: waterworks, sewerage, bridges, industrial buildings, commercial buildings, earthwork and drainage, and highways.

New Capital

New capital for construction purposes this week totals $7,000,000, and is made up of $5,500,000 in State and municipal bond sales and $1,500,000 in corporate security issues. New capital for the 12-week period of 1946 totals $334,654,000, 37% greater than the $245,031,000 reported for the corresponding period of 1945.

Steel Production Holds—Tonnage Carried Over From First Quarter to Be Heaviest on Record

"With steel order volume mounting to new highs and with some steel products almost impossible to obtain for many months, pressure this week was being exerted from some quarters to reinstall a modified form of steel priorities," states "The Iron Age," national metalworking paper, in its issue of today (March 28), which further adds that "such a move, however, appeared doomed if for no other reason than that it would take months to build up an organization if the personnel could be found." The publication further goes on to say in part as follows:

"The Civilian Production Administration was in conference Wednesday of this week with the Steel Industry Advisory Committee at which time a complete discussion was slated for the tight steel situation. Arguments for and against a modified priority system were to be threshed out, with the expected result that the steel industry itself would move rapidly to eliminate extremely tight spots throughout the country covering specific steel products.

"There are some products in various sections of the country which are not immediately available for many steel consumers. Since these hot spots do not involve more than a small percentage of total steel output, it is expected that some of the more serious cases will be eliminated rapidly. Steelmakers point to the fact that today's steel market condition is no different from high peacetime activity.

"Most steel companies already have a priority system of their own, known as the quota system, under which consumers obtain the same relative proportion of steel as they did before the war. As far as possible efforts are being made to take care of customers whose initial appearance in the market occurred during the war. For the most part, however, the natural tendency is to give service to customers whose past history indicates that they were long-time consumers.

"The sudden realization by steel users that a boom market was in the making has caused a substantial bulge in the volume of new steel business, despite the fact that many companies are unable to give specific delivery promises. This trend is expected to continue to the point where it will bear strong resemblance to the 'old-time' steel market conditions when total backlogs for many companies often represented from seven months to a year's production.

"Except for a possible temporary slowdown in output which would be caused by a coal strike, the steel industry's labor outlook is slated for smooth sailing until the present contracts expire in February 1947. Both in the steel industry and in the steel union there is a tacit understanding that both sides will do everything possible to maintain a year's uninterrupted output as well as to step up production to a high level.

"Before the end of the present contracts, however, it is certain that the industry will again be approached by the United Steel Workers of America with a definite demand for a guaranteed annual wage. This request came up several years ago but was not pushed too hard. Now with wage rates the highest in steel history and about at the point where there is no more slack and where higher steel prices to support a greater wage rate would backfire on steel production and hence steel employment, the trend is for other concessions.

The American Iron and Steel Institute on Monday of this week announced that telegraphic reports which it had received indicated that the operating rate of steel companies having 94% of the steel capacity of the industry will be 88.5% of capacity for the week beginning March 25, compared with 88.9% one week ago, 58.6% one month ago and 96.6% one year ago. This represents a decrease of 0.4 point or 0.5% from the preceding week. The operating rate for the week beginning March 25 is equivalent to 1,559,700 tons of steel ingots and castings, compared to 1,566,800 tons one week ago, 1,032,800 tons one month ago, and 1,769,400 tons one year ago.

"Steel" of Cleveland, in its summary of the iron and steel markets, on March 25 stated in part as follows:

"While steel production is at a high rate, better than during months immediately preceding the steel strike, the quarterly carryover of tonnage scheduled to have been delivered in first quarter will be the heaviest on record, as a result of strike interruptions.

"Meanwhile new demand is increasing, with the situation in light flat products tighter than at any time and with promises on all major products extended far into the future. Threat of a soft coal strike in April promises to complicate conditions further. Demand for sheets continues overwhelming. Consumers shop among mills with little success, as some producers are out of the market for the year on virtually all grades and are side-stepping business for 1947. Others are on a quarterly quota basis which means practically the same thing. The latter have not formally opened books for third and fourth quarters but apparently there is little chance, short of special directives, for those not already protected, to get on schedules.

"So critical has the pig iron situation become that producers, in effect, are no longer taking orders but are telling customers what they will give them, which in practically, if not all cases, is far less than what is asked. Producers are rationing tonnage more closely than at any time since the war. In some cases tonnage is being rationed on the basis of 1945 shipments and in others on the basis of 1944-45 shipments. Pig iron consumers have relaxed specifications long since, taking almost anything within reason offered by furnaces. Off-grade iron produced while blast furnaces were getting back into operation after the strike has been taken quickly in many cases.

"Confusion following the recent announcement of price increases on steel products is being cleared by further announcements by OPA. Rail extras, as well as the base price, are on a net ton instead of gross ton basis, a point recently cleared up. While most sellers of stainless sheets have increased prices 8.2%, at least two large producers have not yet taken action. On alloy prices in general, questions remain to be clarified, although one doubtful point has been cleared up. High-tensile low-alloys, it is now declared, will take the same advance as carbon steels. Originally the question was whether they would take the carbon increase or the 4% advance applying to most alloys.

"Scrap shortage has assumed a serious aspect and Civilian Production Administration has issued a call for householders and farmers to search out any scrap material that can be found, in an effort to make up the deficit of about two million tons in scrap reserve. This reserve is said to have shrunk from an estimated 5,600,000 tons at the middle of 1943, when the former country-wide drive closed, to about 3,000,000 tons at the end of the war."

Moody's Daily Commodity Index

Tuesday, March 19	271.3
Wednesday, March 20	271.2
Thursday, March 21	271.6
Friday, March 22	271.7
Saturday, March 23	271.9
Monday, March 25	272.0
Tuesday, March 26	271.8
Two weeks ago, March 12	271.4
Month ago, February 26	269.5
Year ago, March 26	255.0
1945 High, December 27	265.0
Low, January 24	252.1
1946 High, March 26	272.0
Low, January 2	264.7

Daily Average Crude Oil Production for Week Ended March 16, 1946 Increased 11,200 Bbls.

The American Petroleum Institute estimates that the daily average gross crude oil production for the week ended March 16, 1946, was 4,414,550 barrels, an increase of 11,200 barrels per day over the preceding week. The current figure, however, was 359,365 barrels per day less than in the corresponding week of 1945, and was 35,450 barrels below the daily average figure of 4,450,000 barrels estimated by the United States Bureau of Mines as the requirements for the month of March, 1946. Daily production for the four weeks ended March 16, 1946 averaged 4,564,450 barrels. Further details as reported by the Institute follow:

Reports received from refining companies indicate that the industry as a whole ran to stills on a Bureau of Mines basis approximately 4,607,000 barrels of crude oil daily and produced 13,850,000 barrels of gasoline; 2,168,000 barrels of kerosine; 5,655,000 barrels of distillate fuel, and 8,382,000 barrels of residual fuel oil during the week ended March 16, 1946; and had in storage at the end of the week 104,781,000 barrels of finished and unfinished gasoline; 8,466,000 barrels of kerosine; 25,747,000 barrels of distillate fuel, and 37,767,000 barrels of residual fuel oil.

DAILY AVERAGE CRUDE OIL PRODUCTION (FIGURES IN BARRELS)

	*B. of M. Calculated Requirements March	State Allowables Begin. Mar. 1	Actual Production Week Ended Mar. 16 1946	Change from Previous Week	4 Weeks Ended Mar. 16, 1946	Week Ended Mar. 17, 1945
Oklahoma	366,000	359,525	†371,500	— 10,050	383,150	368,950
Kansas	252,000	245,200	†252,750	+ 3,050	252,050	271,300
Nebraska	800	----	†800	— 50	850	950
Panhandle Texas			31,000	----	81,000	88,000
North Texas			146,050	----	151,850	149,300
West Texas			436,550	----	469,900	477,400
East Central Texas			127,500	----	136,850	146,700
East Texas			317,400	----	319,200	381,000
Southwest Texas			290,200	----	323,200	352,150
Coastal Texas			418,800	----	481,400	564,450
Total Texas	1,910,000	‡1,791,553	1,817,500	----	1,963,400	2,159,000
North Louisiana			82,550	+ 250	82,400	70,150
Coastal Louisiana			293,350	----	291,100	295,650
Total Louisiana	372,000	406,454	375,900	+ 250	373,500	365,800
Arkansas	76,000	79,603	77,000	— 400	77,250	80,300
Mississippi	52,000		55,100	— 200	54,600	51,500
Alabama	600		1,000	----	1,000	250
Florida	----		100	----	100	15
Illinois	198,000		206,150	— 1,700	209,400	181,950
Indiana	13,000		17,900	— 850	18,000	10,300
Eastern— (Not incl. Ill., Ind., Ky.)	61,200		65,100	+ 1,200	64,250	66,800
Kentucky	29,000		32,150	+ 1,550	30,850	14,200
Michigan	46,000		43,250	— 1,850	44,100	50,100
Wyoming	94,000		110,300	+ 7,600	105,500	105,600
Montana	20,400		20,150	+ 1,050	19,350	20,650
Colorado	23,000		25,400	— 2,800	25,350	9,900
New Mexico	98,000	106,000	95,600	----	97,000	103,850
Total East of Calif.	3,612,000		3,567,650	+ 1,800	3,719,700	3,861,415
California	838,000	§824,000	846,900	+ 9,400	844,750	912,500
Total United States	4,450,000		4,414,550	+ 11,200	4,564,450	4,773,915

*These are Bureau of Mines calculations of the requirements of domestic crude oil (after deductions of condensate and natural gas derivatives) based upon certain premises outlined in its detailed forecast for the month of March. As requirements may be supplied either from stocks or from new production, contemplated withhdrawals from crude oil inventories must be deducted from the Bureau's estimated requirements to determine the amount of new crude to be produced. In some areas the weekly estimates do, however, include small but indeterminate amounts of condensate which is mixed with crude oil in the field.

†Oklahoma, Kansas, Nebraska figures are for week ended 7:00 a.m., Mar. 13, 1946.

‡This is the net basic allowable as of March 1 calculated on a 31-day basis and includes shutdowns and exemptions for the entire month. With the exception of those fields which were exempted entirely the entire state was ordered shut down for 10 days, no definite dates during the month being specified; operators only being required to shut down as best suits their operating schedules or labor needed to operate leases, a total equivalent to 10 days shutdown time during the calendar month.

§Recommendation of Conservation Committee of California Oil Producers.

CRUDE RUNS TO STILLS; PRODUCTION OF GASOLINE; STOCKS OF FINISHED AND UNFINISHED GASOLINE, KEROSINE, GAS OIL AND DISTILLATE FUEL AND RESIDUAL FUEL OIL, WEEK ENDED MARCH 16, 1946

(Figures in thousands of barrels of 42 gallons each)

Figures in this section include reported totals plus an estimate of unreported amounts and are therefore on a Bureau of Mines basis

District—	% Daily Refin'g Capac. Report'g	Crude Runs to Stills Daily Av.	Crude Runs to Stills % Operated	§Gasoline Produc'n at Ref. Inc. Nat. Blended	‡Finish'd and Unfin. Gasoline Stocks	‡Stocks of Kerosine	‡Stks. of Gas Oil & Dist. Fuel Oil	‡Stks. of Resid. Fuel Oil
East Coast	99.5	763	96.5	1,587	23,305	3,964	7,926	6,093
Appalachian—								
District No. 1	76.8	92	63.0	320	2,856	161	396	255
District No. 2	81.2	59	118.0	219	1,200	25	81	284
Ind., Ill., Ky.	87.2	751	87.6	2,562	24,213	1,129	3,100	3,043
Okla., Kan., Mo.	78.3	392	83.6	1,295	9,892	389	1,438	959
Inland Texas	59.8	203	61.5	873	3,091	292	300	629
Texas Gulf Coast	89.3	1,091	88.2	3,653	15,669	1,094	4,262	4,062
Louisiana Gulf Coast	96.8	301	115.8	837	4,427	499	1,189	1,179
No. La. & Arkansas	55.9	58	46.0	151	1,891	216	451	245
Rocky Mountain—								
District No. 3	17.1	14	107.7	44	105	20	31	33
District No. 4	72.1	122	76.7	392	2,386	102	384	563
California	86.5	761	78.7	1,917	15,746	575	6,189	20,422
Total U. S. B. of M. Basis Mar. 13, 1946	85.7	4,607	85.2	13,850	*104,781	8,466	25,747	37,767
Total U. S. B. of M. Basis Mar. 9, 1945	85.7	4,656	86.1	13,669	104,901	8,108	25,131	38,388
U. S. B. of M. basis Mar. 17, 1945		4,751	---	14,728	†98,405	6,617	25,874	43,243

*Includes unfinished gasoline stocks of 8,522,000 barrels. †Includes unfinished gasoline stocks of 12,110,000 barrels. ‡Stocks at refineries, at bulk terminals, in transit and in pipe lines. §Not including 2,168,000 barrels of kerosine, 5,655,000 barrels of gas oil and distillate fuel oil and 8,382,000 barrels of residual fuel oil produced during the week ended March 16, 1946, which compares with 2,276,000 barrels, 5,929,000 barrels and 8,779,000 barrels, respectively, in the preceding week and 1,639,000 barrels, 4,640,000 barrels and 8,706,000 barrels, respectively, in the week ended March 17, 1945.

Weekly Coal and Coke Production Statistics

The total production of bituminous coal and lignite in the week ended March 16, 1946, as estimated by the United States Bureau of Mines, was 13,180,000 net tons, an increase of 120,000 tons, or 0.9% over the preceding week. Output in the week ended March 17, 1945 amounted to 11,912,000 tons. From Jan. 1 to March 16, 1946, soft coal production totaled 134,349,000 net tons, an increase of 3.8% when compared with the 129,481,000 tons produced in the period from Jan. 1 to March 17, 1945.

Production of Pennsylvania anthracite for the week ended March 16, 1946, as estimated by the Bureau of Mines, was 1,276,000 tons, an increase of 78,000 tons (6.5%) over the preceding week. When compared with the output in the corresponding week of 1945 there was an increase of 62,000 tons, or 5.1%. The calendar year to date shows an increase of 10.1% when compared with the corresponding period of 1945.

The Bureau also reported that the estimated production of beehive coke in the United States for the week ended March 16, 1946 showed an increase of 3,500 tons when compared with the output for the week ended March 9, 1946; but was 20,800 tons less than for the corresponding week of 1945.

ESTIMATED UNITED STATES PRODUCTION OF BITUMINOUS COAL AND LIGNITE (In Net Tons)

	Week Ended Mar. 16, 1946	Week Ended *Mar. 9, 1946	Week Ended Mar. 17, 1945	Jan. 1 to Date †Mar. 16, 1946	Jan. 1 to Date Mar. 17, 1945
Bituminous coal & lignite—					
Total, including mine fuel	13,180,000	13,060,000	11,912,000	134,349,000	129,481,000
Daily average	2,197,000	2,177,000	1,985,000	2,096,000	1,974,000

*Revised. †Subject to current adjustment.

ESTIMATED PRODUCTION OF PENNSYLVANIA ANTHRACITE AND COKE (In Net Tons)

	Week Ended ‡Mar. 16, 1946	Week Ended §Mar. 9, 1946	Week Ended Mar. 17, 1945	Calendar Year to Date Mar. 16, 1946	Calendar Year to Date Mar. 17, 1945	Calendar Year to Date Mar. 20, 1937
Penn. Anthracite—						
*Total incl. coll. fuel	1,276,000	1,198,000	1,214,000	12,651,000	11,493,000	10,924,000
†Commercial produc.	1,225,000	1,150,000	1,165,000	12,144,000	11,033,000	10,378,000
Beehive coke— United States	106,400	102,900	127,200	972,500	1,223,000	802,700

*Includes washery and dredge coal and coal shipped by truck from authorized operations. †Excludes colliery coal. ‡Subject to revision. §Revised.

ESTIMATED WEEKLY PRODUCTION OF BITUMINOUS COAL AND LIGNITE, BY STATES, IN NET TONS

(The current weekly estimates are based on railroad carloadings and river shipments and are subject to revision on receipt of monthly tonnage reports from district and State sources or of final annual returns from the operators.)

State—	Week Ended Mar. 9, 1946	Week Ended Mar. 2, 1946	Week Ended Mar. 10, 1945
Alabama	447,000	421,000	365,000
Alaska	7,000	7,000	7,000
Arkansas and Oklahoma	112,000	102,000	80,000
Colorado	159,000	155,000	174,000
Georgia and North Carolina	1,000	1,000	1,000
Illinois	1,653,000	1,572,000	1,463,000
Indiana	550,000	568,000	479,000
Iowa	30,000	45,000	40,000
Kansas and Missouri	121,000	152,000	148,000
Kentucky—Eastern	1,146,000	1,113,000	898,000
Kentucky—Western	476,000	478,000	318,000
Maryland	48,000	46,000	34,000
Michigan	3,000	3,000	2,000
Montana (bitum. & lignite)	91,000	97,000	107,000
New Mexico	30,000	32,000	33,000
North & South Dakota (lignite)	61,000	67,000	48,000
Ohio	825,000	767,000	437,000
Pennsylvania (bituminous)	2,937,000	2,974,000	2,343,000
Tennessee	172,000	163,000	126,000
Texas (bituminous & lignite)	1,000	1,000	2,000
Utah	147,000	148,000	137,000
Virginia	405,000	388,000	345,000
Washington	25,000	24,000	29,000
West Virginia—Southern	2,296,000	2,207,000	2,082,000
West Virginia—Northern	1,130,000	1,006,000	915,000
Wyoming	187,000	183,000	197,000
§Other Western States	*	*	*
Total bituminous & lignite	13,060,000	12,720,000	10,810,000

†Includes operations on the N. & W.; C. & O.; Virginian; K. & M.; B. C. & G.; and on the B. & O. in Kanawha, Mason, and Clay counties. ‡Rest of State, including the Panhandle District and Grant, Mineral, and Tucker counties. §Includes Arizona and Oregon. *Less than 1,000 tons.

Non-Ferrous Metals—Foreign Copper Higher—Revised Lead Order Further Limits Consumption

"E. & M. J. Metal and Mineral Markets," in its issue of March 21, stated:

"The movement of major non-ferrous metals continues at a reduced rate, owing to strikes that have shut down numerous important units in the copper and lead industries. The pinch in copper is being felt largely in a shortage of wirebars. In reference to lead, both imports and domestic production have been reduced sharply. Resumption of galvanizing is reflected in an enlarged demand for Prime Western zinc. With the demand for foreign copper in the open market expanding sales are being closed at higher prices. This development is reflected in current quotations for foreign metal issued weekly by E. & M. J. Quicksilver advanced $1 per flask." The publication further went on to say in part as follows:

Copper

Strikes at mines, smelters, and refineries have reduced the flow of specifiable shapes of copper, particularly in so far as wirebars are concerned. In an effort to avoid a strike at the mines of Phelps Dodge, OPA offered to review the price situation in copper. This caused much speculation on whether the ceiling price would be raised in the not distant future, and buyers were eager to place whatever business they could. In other words, demand was active, but offerings remained light because of the labor situation.

Though "bulk" buying of foreign copper by governments is likely to continue for some time, the volume of business transacted daily in foreign copper in the free market has been expanding since the beginning of the year. This volume has attained proportions that again make it possible to establish a "world price" that can be accepted as a measure of value for copper sold outside of the United States. Effective March 14, our export quotation for copper reflects prices obtained by producers in the open market. Average prices for the calendar week ended March 16, 1946, were: Domestic copper f. o. b. refinery, 11.775 cents and export copper f. o. b. refinery, 11.821 cents. On March 20, export copper was 11.925 cents.

Lead

The revised lead order further limiting consumption has been completed, the industry believes, and its contents will be divulged by CPA shortly. In view of the strike situation, the industry is struggling with the more immediate problems of supply that are greatly restricting business regardless of what the order will show.

Consumers last week asked for a large tonnage of foreign lead for April, probably more than 40,000 tons, but it is highly probable that not more than 12,000 tons will be released by the Government. Imports have been light, also due to labor troubles, and the stockpile is down to around 41,000 tons.

Sales of lead during the last week totaled 2,108 tons.

Zinc

With galvanizing operations expanding, demand for Prime Western zinc is improving, and most sellers reported a good week's business. Special High Grade, as for some time past, continues in excellent demand. Grades used in brass making remain inactive.

The Government's stockpile of slab zinc at the end of February amounted to 260,044 tons, which compares with 260,702 tons a month previous.

Tin

The Metals Reserve stockpile at the end of February contained 57,440 tons of tin, which compares with 56,016 tons a month previous. The stockpile consists of 24,254 tons of pig tin and 33,186 tons of tin contained in concentrates.

Straits quality tin for shipment, in cents per pound, was nominally as follows:

	March	April	May
March 14	52.000	52.000	52.000
March 15	52.000	52.000	52.000
March 16	52.000	52.000	52.000
March 18	52.000	52.000	52.000
March 19	52.000	52.000	52.000
March 20	52.000	52.000	52.000

Chinese, or 99% tin, continued at 51.125c per pound.

Quicksilver

The market was firm in all directions, with some sellers no offering spot metal except in small lots under present conditions. Growing uncertainty over the political situation in Spain is viewed as a disturbing factor by several operators. Others believe that demand here will improve sufficiently to make for a continued tight spot position until domestic production can be increased. Italian producers are not anxious sellers. Recent activity in quicksilver in this market involved larger supplies than first reported, reducing supplies in weak hands to a minimum. Demand was fair throughout the week that ended yesterday, with sales covering round lots at $104 and $104.50 per flask. As the week ended quotations ranged from $104 to $107, depending on quantity and seller.

Silver

The Treasury loaned a total of 1,226,000,000 oz. of silver to war projects through the Office of Defense Plants. So far, 24,000,000 oz. have been returned to the Treasury. About one-third of the silver was loaned to war plants.

This dispute over silver prices continues. Senator McCarran (Nev.) has introduced a bill which would fix the sum paid to miners at 80% of the monetary value of silver, which would establish the price at slightly more than $1.03 an ounce troy. He believes that his proposal may lead to a compromise.

Senator Green (R.I.) predicted the Senate Appropriations Committee will approve and the Senate will pass his proposal, submitted as an amendment to the Treasury-Post Office bill, which calls for the sale of surplus Treasury silver at 71.11c for two years.

The New York Official quotation for foreign silver was unchanged last week at 70¾c. London was unchanged at 44d.

Trading on New York Exchanges

The Securities and Exchange Commission made public on March 20 figures showing the volume of total round-lot stock sales on the New York Stock Exchange and the New York Curb Exchange and the volume of round-lot stock transactions for the account of all members of these exchanges in the week ended Mar. 2, continuing a series of current figures being published weekly by the Commission. Short sales are shown separately from other sales in these figures.

Trading on the Stock Exchange for the account of members (except odd-lot dealers) during the week ended Mar. 2 (in round-lot transactions) totaled 3,429,122 shares, which amount was 17.32% of the total transactions on the Exchange of 9,895,830 shares. This compares with member trading during the week ended Feb. 23 of 2,816,210 shares, or 16.57% of the total trading of 8,515,570 shares.

On the New York Curb Exchange, member trading during the week ended Mar. 2, amounted to 913,410 shares, or 13.74% of the total volume on that Exchange of 3,324,875 shares. During the week ended Feb. 23 trading for the account of Curb members of 873,695 shares was 13.53% of the total trading of 3,229,180 shares.

Total Round-Lot Stock Sales on the New York Stock Exchange and Round-Lot Stock Transactions for Account of Members* (Shares)
WEEK ENDED MARCH, 2, 1946

	Total for Week	†%
A. Total Round-Lot Sales:		
Short sales	248,110	
‡Other sales	9,647,720	
Total sales	9,895,830	
B. Round-Lot Transactions for Account of Members, Except for the Odd-Lot Accounts of Odd-Lot Dealers and Specialists:		
1. Transactions of specialists in stocks in which they are registered—		
Total purchases	1,141,130	
Short sales	148,100	
‡Other sales	1,019,060	
Total sales	1,167,160	11.66
2. Other transactions initiated on the floor—		
Total purchases	159,910	
Short sales	11,800	
‡Other sales	208,800	
Total sales	220,600	1.92
3. Other transactions initiated off the floor—		
Total purchases	338,837	
Short sales	23,200	
‡Other sales	378,285	
Total sales	401,485	3.74
4. Total—		
Total purchases	1,639,877	
Short sales	183,100	
‡Other sales	1,606,145	
Total sales	1,789,245	17.32

Total Round-Lot Stock Sales on the New York Curb Exchange and Stock Transactions for Account of Members* (Shares)
WEEK ENDED MARCH, 2, 1946

	Total for Week	†%
A. Total Round-Lot Sales:		
Short sales	31,265	
‡Other sales	3,293,610	
Total sales	3,324,875	
B. Round-Lot Transactions for Account of Members:		
1. Transactions of specialists in stocks in which they are registered—		
Total purchases	326,110	
Short sales	14,060	
‡Other sales	304,315	
Total sales	318,375	9.69
2. Other transactions initiated on the floor—		
Total purchases	59,645	
Short sales	5,800	
‡Other sales	55,550	
Total sales	61,350	1.82
3. Other transactions initiated off the floor—		
Total purchases	60,315	
Short sales	9,700	
‡Other sales	77,915	
Total sales	87,615	2.23
4. Total—		
Total purchases	446,070	
Short sales	29,560	
‡Other sales	437,780	
Total sales	467,340	13.74
C. Odd-Lot Transactions for Account of Specialists—		
Customers' short sales	0	
‡Customers' other sales	123,220	
Total purchases	123,220	
Total sales	149,450	

*The term "members" includes all regular and associate Exchange members, their firms and their partners, including special partners.

†In calculating these percentages the total of members' purchases and sales is compared with twice the total round-lot volume on the Exchange for the reason that the Exchange volume includes only sales.

‡Round-lot short sales which are exempted from restriction by the Commission's rules are included with "other sales."

§Sales marked "short exempt" are included with "other sales."

Wholesale Prices Rose 0.2% in Week Ended March 16, Labor Department Reports

Average primary market prices reached a new postwar high during the week ended March 16, 1946, with an advance of 0.2% in the index of commodity prices prepared by the Bureau of Labor Statistics, U. S. Department of Labor. In reporting this on March 21, the Bureau stated that "at 108.4% of the 1926 average the index was 1.1% above a month ago and 3.1% higher than the corresponding week of last year." The Bureau's advices continued:

"Farm Products and Foods — Prices of farm products declined 0.6% during the week largely because of lower prices for fresh fruits and vegetables, while prices of foods rose 0.3% reflecting the increase in OPA ceilings for meats allowed as a result of increases for packing house workers. Sheep quotations were lower while prices for cows and steers were higher in a strong market. Prices of oranges declined with poor quality offerings. Potatoes, onions, and apples rose seasonally. Lemons were higher with improved quality. Rye quotations were lower. Cotton quotations declined reflecting heavy selling by the Commodity Credit Corporation. The group index for farm products was 1.6% above mid-February 1946 and 4.5% above a year ago.

"Foods were 1.4% above four weeks earlier and 4.7% higher than mid-March 1945. Price increases for meats during the week ranged from 1% to nearly 7%, with the average up 1.9%. Lard prices rose with increased OPA ceilings and rye flour was higher.

"Other Commodities—All commodities other than farm products and foods increased 0.3% during the week to a level 0.8% above mid-February 1946 and 2.5% above a year ago. Most of the increases followed upward adjustments in OPA ceilings. Lumber quotations advance 5.5% reflecting sharply higher prices for douglas fir sizes used in residential construction and increases for southern pine, both allowed by OPA to encourage production. Prices of pig iron rose as higher ceilings were allowed by OPA to cover increased costs; brass sheets, lavatories and farm machinery also were up with increased ceilings. There were small advances for wool rugs, reflecting OPA ceiling adjustments for individual manufacturers in addition to the industry wide increase allowed in January. Prices of ergot, common brick and Portland cement were higher."

The Labor Department included the following notation in its report:

The Bureau of Labor Statistics' wholesale price data, for the most part, represent prices in primary markets. In general, the prices are those charged by manufacturers or producers or are those prevailing on commodity exchanges. The weekly index is calculated from one-day a-week prices. It is designed as an indicator of week to week changes and should not be compared directly with the monthly index.

The following tables show (1) indexes for the past three weeks, for Feb. 16, 1946 and March 17, 1945, and (2) percentage changes in subgroup indexes from March 9, 1946 to March 16, 1946.

CHANGES IN WHOLESALE PRICES BY COMMODITY GROUPS
FOR THE WEEK ENDED MARCH 16, 1946

						Percentage changes to Mar. 16, 1946, from—		
Commodity group—	3-16 1946	3-9 1946	3-2 1946	2-16 1946	3-17 1945	3-9 1946	2-16 1946	3-17 1945
All commodities	108.4	108.2	107.6	107.2	105.1	+0.2	+1.1	+3.1
Farm products	133.1	133.9	130.7	131.0	127.4	—0.6	+1.6	+4.5
Foods	109.5	109.2	107.9	108.0	104.6	+0.3	+1.4	+4.7
Hides and leather products	120.1	120.1	120.1	120.1	118.2	0	0	+1.6
Textile products	101.9	101.9	101.4	101.1	99.2	0	+0.8	+2.7
Fuel and lighting materials	85.4	85.4	85.4	85.7	83.9	0	—0.4	+1.8
Metal and metal products	107.7	107.8	107.8	105.8	104.3	—0.1	+1.8	+3.3
Building materials	123.3	121.1	121.0	120.0	116.9	+1.8	+2.8	+5.5
Chemicals and allied products	96.0	96.0	96.0	95.9	94.9	0	+0.1	+1.2
Housefurnishings goods	108.4	108.3	108.0	106.8	106.2	+0.1	+1.5	+2.1
Miscellaneous commodities	95.4	95.4	95.4	95.4	94.4	0	0	+1.1
Raw materials	121.0	121.4	119.5	119.7	116.3	—0.3	+1.1	+4.0
Semi-manufactured articles	99.7	99.6	99.6	98.5	94.9	+0.1	+1.2	+5.1
Manufactured products	104.3	103.8	103.7	103.2	101.8	+0.5	+1.1	+2.5
All commodities other than farm products	103.0	102.6	102.5	102.0	100.3	+0.4	+1.0	+2.7
All commodities other than farm products and foods	101.9	101.6	101.5	101.1	99.4	+0.3	+0.8	+2.5

PERCENTAGE CHANGES IN SUBGROUP INDEXES FROM
MARCH 9, 1946 TO MARCH 16, 1946

Increases			
Lumber	5.5	Meats	1.9
Non-ferrous metals	0.5	Cement	0.2
Brick and tile	0.1	Drugs and pharmaceuticals	0.1
Farm machinery	0.1	Other foods	0.1
Plumbing and heating	0.1		

Decreases			
Fruits and vegetables	1.3	Other farm products	0.9
Livestock and poultry	0.3		

National Fertilizer Association Commodity Price Index Records New High 3rd Consecutive Week

The weekly wholesale commodity price index compiled by The National Fertilizer Association and made public on March 25, advanced 0.6%, to 144.4 in the week ended March 23, 1946, from 143.6 in the preceding week. This is the third consecutive week that a new high point has been recorded for the index and it is now 1.5% higher than it was at the beginning of this year. A month ago the index stood at 142.1, and a year ago at 140.1, all based on the 1935-1939 average as 100. The Association's report went on to say:

There were advances in five of the composite groups of the index with three of the five reaching new high points. The food group registered the largest increase during the latest week with higher prices for bread, oranges, potatoes, dressed beef, lambs and pork. The farm products group advanced to its level of Dec. 15, 1945, with the three subgroups all sharing in the advance. Higher quotations for cotton took the index to a new high point. The grain index also advanced to a new high reflecting higher quotations for rye and barley. The livestock index advanced slightly due to an increase in good cattle and lamb prices. The textile group advanced to a new high point, principally because of higher prices for cotton yarns, and cotton goods. The metal index, reaching a new high point, advanced slightly because of the higher prices for pig iron. The farm machinery index advanced fractionally, reaching a new high level. All other groups in the index remained unchanged.

During the week 16 price series in the index advanced and none declined; in the preceding week 13 advanced and four declined; in the second preceding week 13 advanced and three declined.

WEEKLY WHOLESALE COMMODITY PRICE INDEX
Compiled by The National Fertilizer Association
1935-1939=100*

% Each Group Bears to the Total Index	Group	Latest Week Mar. 23, 1946	Preceding Week Mar. 16, 1946	Month Ago Feb. 23, 1946	Year Ago Mar. 24, 1945
25.3	Foods	144.0	141.9	141.5	141.6
	Fats and Oils	147.4	147.4	146.6	145.3
	Cottonseed Oil	163.1	163.1	163.1	163.1
23.0	Farm Products	173.2	172.5	169.7	166.1
	Cotton	254.1	251.8	247.8	207.3
	Grains	173.5	172.4	169.9	163.7
	Livestock	160.5	160.2	157.1	160.3
17.3	Fuels	126.8	126.5	128.7	130.4
10.8	Miscellaneous commodities	134.3	134.3	133.9	133.4
8.2	Textiles	165.4	163.7	161.3	156.1
7.1	Metals	117.1	116.9	110.2	104.7
6.1	Building materials	167.8	167.8	161.3	154.2
1.3	Chemicals and drugs	127.2	127.2	127.2	125.4
.3	Fertilizer materials	118.2	118.2	118.2	118.3
.3	Fertilizers	119.8	119.8	119.8	119.9
.3	Farm machinery	105.3	105.2	105.2	104.8
100.0	All groups combined	144.4	143.6	142.1	140.1

*Indexes on 1926-1928 base were: March 23, 1946, 112.5; March 16, 1946, 111.9; and March 24, 1945, 109.1.

Result of Treasury Bill Offering

The Secretary of the Treasury announced on March 25 that the tenders for $1,300,000,000 or thereabout of 91-day Treasury bills to be dated March 28 and to mature June 27, which were offered on March 22, were opened at the Federal Reserve Banks on March 25.

Total applied for $1,984,509,000.

Total accepted, $1,312,401,000 (includes $44,768,000 entered on a fixed price basis at 99.905 and accepted in full).

Average price, 99.905+; equivalent rate of discount approximately 0.375% per annum.

Range of accepted competitive bids:

High, 99.908, equivalent rate of discount approximately 0.364% per annum.

Low, 99.905; equivalent rate of discount approximately 0.376% per annum.

(61% of the amount bid for at the low price was accepted.)

There was a maturity of a similar issue of bills on March 28 in the amount of $1,304,361,000.

Armed Service Pay Increase Urged

As a means of attracting more volunteers to the armed services, both the Secretary of War, Robert P. Patterson and the Secretary of the Navy, James Forrestall, on Mar.20 recomended to a subcommittee of the Senate Military Affairs Committee that a 20% increase be allowed in the pay of service men of all ranks. Mr. Patterson, according to the report from Washington to the New York "Times", urged a rise for enlisted men "to a level more comparable to business and industrial standards", and he pointed out that the money was needed immediately "to alleviate an undesirable situation which has been made more acute by the recent rise in living costs and civilian scales of pay."

Mr. Forrestal expressed the opinion that the entire structure of service pay could be overhauled only after a year's study had been devoted to the task, which, he added, could best be done by civilians.

NYSE Odd-Lot Trading

The Securities and Exchange Commission made public on March 20, a summary for the week ended Mar. 9 of complete figures showing the daily volume of stock transactions for odd-lot account of all odd-lot dealers and specialists who handled odd lots on the New York Stock Exchange, continuing a series of current figures being published by the Commission. The figures are based upon reports filed with the Commission by the odd-lot dealers and specialists.

STOCK TRANSACTIONS FOR THE ODD LOT ACCOUNT OF ODD-LOT DEALERS AND SPECIALISTS ON THE N. Y. STOCK EXCHANGE
Week Ended March 9, 1946

Odd-Lot Sales by Dealers— (Customers' purchases)	Total For Week
Number of Orders	28,810
Number of Shares	834,073
Dollar value	$38,079,871
Odd-Lot Purchases by Dealers— (Customers' sales)	
Number of Orders	
Customers' short sales	77
*Customers' other sales	25,120
Customers' total sales	25,197
Number of Shares	
Customers' short sales	2,538
*Customers' other sales	699,523
Customers' total sales	702,061
Dollar Value	$31,419,276
Round-Lot Sales by Dealers—	
Number of Shares	
Short sales	100
†Other sales	129,000
Total sale	129,100
Round-Lot Purchases by Dealers—	
Number of shares	287,860

*Sales marked "short exempt" are reported with "other sales."

†Sales to offset customers' odd-lot orders and sales to liquidate a long position which is less than a round lot are reported with "other sales."

Revenue Freight Car Loadings During Week Ended March 16, 1946 Increased 13,680 Cars

Loading of revenue freight for the week ended March 16, 1946, totaled 799,882 cars, the Association of American Railroads announced on March 21. This was a decrease below the corresponding week of 1945 of 16,674 cars, or 2.0%, but an increase above the same week in 1944 of 14,687 cars or 1.9%.

Loading of revenue freight for the week of March 16, increased 13,680 cars or 1.7% above the preceding week.

Miscellaneous freight loading totaled 359,049 cars, an increase of 9,828 cars above the preceding week, but a decrease of 46,419 cars below the corresponding week in 1945.

Loading of merchandise less than carload lot freight totaled 123,018 cars, an increase of 995 cars above the preceding week, and an increase of 14,440 cars above the corresponding week in 1945.

Coal loading amounted to 188,469 cars, an increase of 761 cars above the preceding week, and an increase of 18,760 cars above the corresponding week in 1945.

Grain and grain products loading totaled 48,354 cars, an increase of 1,194 cars above the preceding week and an increase of 4,284 cars above the corresponding week in 1945. In the Western Districts alone, grain and grain products loading for the week of March 16 totaled 32,975 cars, an increase of 337 cars above the preceding week and an increase of 4,153 cars above the corresponding week in 1945.

Livestock loading amounted to 15,193 cars, a decrease of 12 cars below the preceding week, but an increase of 846 cars above the corresponding week in 1945. In the Western Districts alone loading of livestock for the week of March 16 totaled 11,541 cars, an increase of 57 cars above the preceding week, and an increase of 658 cars above the corresponding week in 1945.

Forest products loading totaled 42,273 cars, an increase of 238 cars above the preceding week, and an increase of 369 cars above the corresponding week in 1945.

Ore loading amounted to 10,380 cars, an increase of 561 cars above the preceding week, but a decrease of 6,700 cars below the corresponding week in 1945.

Coke loading amounted to 13,146 cars, an increase of 115 cars above the preceding week, but a decrease of 2,254 cars below the corresponding week in 1945.

All districts reported decreases compared with the corresponding week in 1945 except the Pocahontas, Southern, and Northwestern, and all reported decreases compared with 1944, except the Eastern, Pocahontas, Southern, Northwestern and Centralwestern.

	1946	1945	1944
4 weeks of January	2,883,620	3,003,655	3,158,700
4 weeks of February	2,866,710	3,052,487	3,154,116
Week of March 2	782,397	785,736	786,893
Week of March 9	786,202	767,055	780,265
Week of March 16	799,882	816,556	785,195
Total	8,118,811	8,425,489	8,665,169

The following table is a summary of the freight carloadings for the separate railroads and systems for the week ended March 16, 1946. During this period 68 roads reported gains over the week ended March 17, 1945.

REVENUE FREIGHT LOADED AND RECEIVED FROM CONNECTIONS (NUMBER OF CARS) WEEK ENDED MARCH 16

Railroads	Total Revenue Freight Loaded 1946	1945	1944	Total Loads Received from Connections 1946	1945
Eastern District—					
Ann Arbor	*378	309	244	*1,703	1,676
Bangor & Aroostook	3,371	2,945	3,018	440	659
Boston & Maine	7,727	7,224	6,890	15,045	17,169
Chicago, Indianapolis & Louisville	1,277	1,259	1,480	2,139	2,755
Central Indiana	39	38	49	44	41
Central Vermont	1,097	1,161	1,060	2,095	2,357
Delaware & Hudson	4,815	4,954	4,590	11,991	14,681
Delaware, Lackawanna & Western	7,848	8,092	7,389	9,776	13,072
Detroit & Mackinac	257	250	233	172	143
Detroit, Toledo & Ironton	2,300	1,971	1,800	1,524	2,327
Detroit & Toledo Shore Line	309	429	318	3,453	4,443
Erie	11,503	13,341	13,018	15,606	18,816
Grand Trunk Western	3,210	4,235	3,945	7,612	10,068
Lehigh & Hudson River	169	172	173	2,716	4,149
Lehigh & New England	2,273	2,073	1,882	1,786	1,606
Lehigh Valley	8,655	8,213	8,683	8,036	13,810
Maine Central	3,062	2,612	2,335	5,706	4,921
Monongahela	6,389	6,220	6,209	277	356
Montour	2,843	2,644	2,524	25	15
New York Central Lines	47,328	50,619	47,087•	55,129	58,071
N. Y., N. H. & Hartford	10,886	11,605	10,178	15,371	21,142
New York, Ontario & Western	855	992	1,223	2,653	3,288
New York, Chicago & St. Louis	5,476	7,769	6,532	14,874	18,187
N. Y., Susquehanna & Western	403	513	471	2,066	2,579
Pittsburgh & Lake Erie	7,519	8,079	7,991	7,504	8,111
Pere Marquette	5,007	5,299	4,711	7,937	9,786
Pittsburgh & Shawmut	816	796	712	20	16
Pittsburg, Shawmut & North	285	264	295	235	250
Pittsburgh & West Virginia	929	1,013	970	1,852	3,310
Rutland	422	401	358	1,448	1,270
Wabash	5,826	6,118	5,857	12,268	14,038
Wheeling & Lake Erie	5,173	6,218	4,771	3,672	5,377
Total	158,447	167,828	157,001	214,975	258,489
Allegheny District—					
Akron, Canton & Youngstown	647	866	715	1,514	1,697
Baltimore & Ohio	42,106	43,291	41,752	24,774	31,193
Bessemer & Lake Erie	2,457	3,196	2,878	1,311	1,822
Cambria & Indiana	1,454	1,634	1,753	8	10
Central R. R. of New Jersey	6,103	7,085	6,725	17,663	22,837
Cornwall	457	518	479	59	71
Cumberland & Pennsylvania	406	178	191	7	6
Ligonier Valley	40	112	123	15	55
Long Island	1,579	1,778	1,280	5,363	5,054
Penn-Reading Seashore Lines	1,715	1,952	1,602	1,922	2,719
Pennsylvania System	77,779	83,948	78,443	61,813	68,315
Reading Co.	14,519	15,357	14,830	27,618	32,461
Union (Pittsburgh)	17,865	19,333	20,144	3,300	4,687
Western Maryland	4,668	3,919	4,377	12,362	14,866
Total	171,795	183,167	175,292	157,729	185,593
Pocahontas District—					
Chesapeake & Ohio	32,191	27,768	28,355	13,018	15,220
Norfolk & Western	22,673	20,491	21,596	6,969	10,758
Virginian	5,498	4,455	4,599	1,761	3,159
Total	60,362	52,714	54,550	21,748	29,137
Southern District—					
Alabama, Tennessee & Northern	431	497	374	234	408
Atl. & W. P.—W. R. R. of Ala.	954	900	834	2,094	2,670
Atlanta, Birmingham & Coast	†	†	778	†	†
Atlantic Coast Line	16,154	15,231	14,513	10,971	14,907
Central of Georgia	4,705	4,071	4,132	5,065	6,264
Charleston & Western Carolina	504	491	398	1,690	2,096
Clinchfield	1,774	1,597	1,571	3,460	4,015
Columbus & Greenville	385	276	263	316	286
Durham & Southern	107	224	130	703	761
Florida East Coast	3,934	3,792	3,996	1,699	1,548
Gainesville Midland	73	57	62	131	151
Georgia	1,206	1,065	1,296	2,387	2,632
Georgia & Florida	448	445	545	915	814
Gulf, Mobile & Ohio	5,343	4,523	4,207	4,358	4,298
Illinois Central System	28,729	27,329	27,897	14,696	18,333
Louisville & Nashville	27,705	25,649	24,246	10,075	11,965
Macon, Dublin & Savannah	246	184	212	1,159	975
Mississippi Central	340	338	268	444	482
Nashville, Chattanooga & St. L.	3,776	3,394	3,449	4,227	5,371
Norfolk Southern	1,302	1,078	996	1,688	1,648
Piedmont Northern	440	437	411	1,512	1,274
Richmond, Fred. & Potomac	407	497	430	9,946	11,659
Seaboard Air Line	12,209	11,920	11,111	8,636	9,791
Southern System	27,359	24,869	24,041	25,592	27,600
Tennessee Central	635	678	751	797	961
Winston-Salem, Southbound	161	136	140	1,051	2,032
Total	139,329	129,678	127,051	113,846	132,941
Northwestern District—					
Chicago & North Western	16,291	14,904	14,921	15,055	13,454
Chicago Great Western	2,596	2,352	2,816	3,533	3,659
Chicago, Milw., St. P. & Pac.	21,833	20,797	20,014	11,590	10,734
Chicago, St. Paul, Minn. & Omaha	3,705	3,682	3,334	5,085	4,645
Duluth, Missabe & Iron Range	1,328	1,170	1,106	315	267
Duluth, South Shore & Atlantic	807	675	751	669	631
Elgin, Joliet & Eastern	7,959	9,324	8,645	10,935	12,698
Ft. Dodge, Des Moines & South	461	347	385	155	79
Great Northern	12,638	11,168	12,623	4,742	6,105
Green Bay & Western	479	456	464	1,087	960
Lake Superior & Ishpeming	305	285	281	55	68
Minneapolis & St. Louis	2,188	2,030	1,778	2,586	2,825
Minn., St. Paul & S. S. M.	5,579	4,502	5,236	4,427	3,663
Northern Pacific	9,821	9,059	9,641	5,019	5,544
Spokane International	86	246	107	481	476
Spokane, Portland & Seattle	2,018	2,244	2,466	2,775	3,718
Total	88,094	83,241	84,568	68,509	69,526
Central Western District—					
Atch., Top. & Santa Fe System	22,638	24,425	21,083	9,836	14,739
Alton	2,922	3,693	2,964	3,440	6,450
Bingham & Garfield	5	378	557	7	71
Chicago, Burlington & Quincy	19,789	20,185	18,136	12,365	12,742
Chicago & Illinois Midland	2,999	2,847	3,057	805	967
Chicago, Rock Island & Pacific	12,206	11,829	10,989	13,613	14,217
Chicago & Eastern Illinois	2,919	2,719	2,554	3,582	5,678
Colorado & Southern	714	826	746	1,597	2,107
Denver & Rio Grande Western	2,920	3,630	3,235	3,715	6,709
Denver & Salt Lake	560	554	740	46	31
Fort Worth & Denver City	940	855	698	1,217	1,448
Illinois Terminal	2,128	2,478	2,063	1,779	2,140
Missouri-Illinois	936	920	1,037	582	889
Nevada Northern	1,464	1,157	1,762	103	110
North Western Pacific	537	714	766	598	887
Peoria & Pekin Union	9	10	15	0	0
Southern Pacific (Pacific)	27,435	28,630	29,783	9,215	16,020
Toledo, Peoria & Western	0	270	402	0	2,267
Union Pacific System	15,119	17,485	14,703	12,024	16,600
Utah	883	535	617	15	4
Western Pacific	1,601	1,774	1,853	2,651	4,740
Total	118,724	125,914	117,760	77,190	108,816
Southwestern District—					
Burlington-Rock Island	299	377	553	489	240
Gulf Coast Lines	5,222	6,729	6,067	2,307	2,778
International-Great Northern	2,054	2,854	1,778	3,535	4,056
K. O. & G., M. V. & O. C.-A.-A.	1,382	1,290	909	1,728	1,822
Kansas City Southern	2,810	5,133	5,850	3,131	3,144
Louisiana & Arkansas	2,393	3,434	3,028	2,290	2,739
Litchfield & Madison	351	352	317	1,205	1,284
Missouri & Arkansas	213	144	194	427	398
Missouri-Kansas-Texas Lines	5,345	7,175	5,601	4,003	4,863
Missouri Pacific	16,991	16,697	15,361	14,227	19,979
Quanah Acme & Pacific	162	150	121	224	411
St. Louis-San Francisco	10,187	9,643	8,043	8,399	8,870
St. Louis-Southwestern	2,830	3,332	3,023	5,299	8,157
Texas & New Orleans	9,005	11,029	12,283	5,595	5,610
Texas & Pacific	3,741	5,569	5,728	6,497	8,541
Wichita Falls & Southern	100	77	89	65	44
Weatherford M. W. & N. W.	46	29	28	13	35
Total	63,131	74,014	68,973	59,434	72,971

•Previous week's figure.

†Included in Atlantic Coast Line RR. ‡Includes Midland Valley Ry. and Kansas Oklahoma & Gulf Ry. only in 1944 and also Oklahoma City-Ada-Atoka Ry. in 1945 and 1946.

NOTE—Previous year's figures revised.

Weekly Statistics of Paperboard Industry

We give herewith latest figures received by us from the National Paperboard Association, Chicago, Ill., in relation to activity in the paperboard industry.

The members of this Association represent 83% of the total industry, and its program includes a statement each week from each member of the orders and production, and also a figure which indicates the activity of the mill based on the time operated. These figures are advanced to equal 100%, so that they represent the total industry.

STATISTICAL REPORTS—ORDERS, PRODUCTION, MILL ACTIVITY

Period 1946—Week Ended	Orders Received Tons	Production Tons	Unfilled Orders Remaining Tons	Percent of Activity Current	Percent of Activity Cumulative
Jan. 5	176,346	111,967	526,891	75	75
Jan. 12	143,366	144,482	523,672	94	85
Jan. 19	134,265	143,550	507,651	93	88
Jan. 26	142,142	143,101	499,955	94	89
Feb. 2	178,590	150,634	516,776	95	90
Feb. 9	169,482	152,066	529,767	97	91
Feb. 16	139,681	149,794	516,211	94	92
Feb. 23	139,993	155,381	500,507	97	93
Mar. 2	198,985	161,122	533,794	98	93
Mar. 9	178,443	158,229	551,081	99	94
Mar. 16	157,227	167,243	538,572	100	94

Notes—Unfilled orders of the prior week, plus orders received, less production, do not necessarily equal the unfilled orders at the close. Compensation for delinquent reports, orders made for or filled from stock, and other items made necessary adjustments of unfilled orders.

Emerson on Cleve Res. Ind. Advisory Com.

Sam W. Emerson, President of the Sam W. Emerson Co., building contractors, was appointed on March 1 to the Industrial Advisory Committee of the Fourth (Cleveland) Federal Reserve District, it was announced by President Ray M. Gidney of the Federal Reserve Bank of Cleveland. Mr. Emerson takes the place left vacant by the recent death of Dan C. Swander, President of the Columbian Vise & Manufacturing Co. The four other members of the committee, which recommends with respect to industrial loans in which the Federal Reserve Bank is concerned, were reappointed by the bank's board of directors for one-year terms beginning March 1. They are:

Herbert P. Ladds, President of the National Screw & Manufacturing Co.; Clifford F. Hood, President of the American Steel & Wire Co.; Herman R. Neff, President of the George S. Rider Co., and Winthrop W. Withington, Vice-President of the American Fork & Hoe Co.

The advices from the Reserve Bank also stated that Mr. Emerson founded the company he heads in 1912 and has built many large industrial plants in the Cleveland area, including the $12,000,000 aeronautical engineering laboratory at Cleveland Airport and the Thompson Aircraft Products Co. plant in Euclid, Ohio. He is a director of the National City Bank of Cleveland, Thompson Products Co., White Sewing Machine Co., United Milk Products Co., Columbian Vise & Manufacturing Co., and Union Properties Co., and is a trustee of Case School of Applied Science, where he was graduated in 1902.

Less Railroad Workers Reported in February

Employees of Class I railroads of the United States, as of the middle of February, 1946, totaled 1,335,415, a decrease of 3.40% compared with the corresponding month of 1945 and 1.95% under January, 1946, according to a report just issued by the Interstate Commerce Commission.

A decline under January, 1946, is shown in the number of employees for every reporting group with the exception of transportation (other than train, engine and yard) which showed an increase of 0.25%. The following groups reported decreases: Executives, officials and staff assistants, 0.41%; professional, clerical and general, 0.34%; maintenance of way and structures, 6.21%; maintenance of equipment and stores, 2.06%; transportation (yardmasters, switch-tenders and hostlers), 0.18% and transportation (train and engine service), 0.56%.

Lumber Movement—Week Ended March 16, 1946

According to the National Lumber Manufacturers Association, lumber shipments of 431 mills reporting to the National Lumber Trade Barometer were 0.6% above production for the week ending March 16, 1946. In the same week new orders of these mills were 1.3% below production. Unfilled order files of the reporting mills amounted to 89% of stocks. For reporting softwood mills, unfilled orders are equivalent to 32 days' production at the current rate, and gross stocks are equivalent to 34 days' production.

For the year-to-date, shipments of reporting identical mills exceeded production by 8.9%; orders by 9.9%.

Compared to the average corresponding week of 1935-1939, production of reporting mills was 4.2% below; shipments were 11.8% below; orders were 15.2% below.

Items About Banks, Trust Companies

John M. Wallace, Vice-President in charge of the three London branches of the Chase National Bank of New York, is in New York City on a business trip to confer with associates at the head office of the bank. This is the first time since 1940 that Mr. Wallace has been in the United States.

The opening by the Chemical Bank & Trust Co. of New York of a branch office at Hunter College, the Bronx, to serve the United Nations Organization, is referred to in a separate item elsewhere in our issue today.

Joseph C. Brennan was elected Assistant Treasurer of Bankers Trust Company of New York effective March 21. He will be associated with the Fifth Avenue office. Mr. Brennan has just completed 3½ years' service in the Navy. He was a Lieutenant-Commander in the Intelligence Division of Aviation. A graduate of Georgetown University, Mr. Brennan had considerable banking experience before lyeaving for active service in the Navy.

Directors of Clinton Trust Company of New York at their regular meeting on March 19 declared a dividend of 25 cents per share payable April 1 to stockholders of record March 21. This is at the rate of $1.00 a year on the new stock resulting from the recent two and one-half-for-one stock split-up and represents an increase over the $2 a year paid prior to the split-up. The present rate is equivalent to $2.50 per share on the old stock.

Herman L. Papsdorf, President of the Hamburg Savings Bank of Brooklyn, N. Y., recently announced the celebration of the bank's 40th anniversary.

"It was on March 10, 1906, that the bank opened its doors for business in a small store at 250 Bleecker Street," said Mr. Papsdorf. "The 40 years which have passed have brought about many changes in world conditions. We have seen peace and war, serious depression and great prosperity. During these 40 years we have witnessed great advances in the fields of science, industry and social progress. And during these 40 years since 1906 the communities which our bank serves have grown and by working together the bank has grown with them. We feel that the growth of an institution to over $66,500,000 on deposit is due to public recognition of our modern services and complete banking facilities."

The bank recently announced its intention to open a new Ridgewood Office at Wyckoff Avenue corner Gates at the Myrtle-Wyckoff Junction as soon as installations are completed. The bank at present has its main office at Myrtle Avenue corner Knickerbocker Avenue in the Bushwick-Ridgewood section and an office at Fulton Street corner Crescent in Cypress Hills.

The Penns Grove National Bank & Trust Co. of Penns Grove, N. J., increased its capital March 8 from $150,000 to $200,000 by the sale of new stock, it was indicated in the weekly bulletin March 18 of the Comptroller of the Currency.

Special meetings of the stockholders of Broad Street Trust Company and Chestnut Hill Title & Trust Company of Philadelphia, Pa., have been called for May 23, to vote on the proposed plans for merger of the two institutions. The merger plan calls for the exchange of two shares of capital stock of the Broad Street Trust Company for each share of capital stock of Chestnut Hill Title & Trust Company. Upon approval by stockholders, the present office of the Chestnut Hill Company will be maintained as the Chestnut Hill office of the Broad Street Trust Company. There will be no change in the management of the Chestnut Hill office. A previous item bearing on the merger plans appeared in our issue of March 14, page 1412.

Directors of the Equitable Trust Company of Baltimore on March 15, declared a quarterly dividend of 20 cents a share, payable April 1 to stockholders of record March 22. This places the stock on an annual basis of 80 cents a share. Last year the company paid four quarterly dividends of 15 cents, plus an extra 15 cents, or a total for the year of 75 cents a share.

The Baltimore "Sun" from which this is learned further said:

"The company also reported the election of Snowden Hoff, Jr., as Assistant Vice-President. J. Edward Lucas was also elected as Assistant Secretary and Assistant Treasurer. Arthur K. Kershaw was elected Auditor to succeed Mr. Lucas."

Election of Andrew Saul as a Director and James F. Willett as an Assistant Treasurer of the American Security & Trust Company of Washington, D. C., was announced on March 20 by President Daniel W. Bell.

S. Oliver Goodman, reporting this in the Washington "Post" also said:

"Mr. Saul, the newly named board member, is executive vice-president of the Washington real estate firm of B. F. Saul Co.

"At the same time directors of the Washington bank declared a quarterly dividend of 2½% on capital stock, placing the issue on a regular 10% annual basis. For some time the bank has been paying an annual dividend of 8% plus 2% extra dividend. The latest dividend is payable March 30 to stockholders of record March 19.

A 40 cent per share dividend has been voted by the directors of the Ohio Citizens Trust Company of Toledo, Ohio, it was announced on March 20 by Williard I. Webb, Jr., President of the institution, it is learned from the Toledo "Blade." The dividend will be paid on April 1 to stockholders of record March 25. Mr. Webb also stated that hereafter dividends will be paid at regular quarterly intervals.

The Hicksville Bank of Hicksville, Defiance County, Ohio, has become a member of the Federal Reserve System, it is announced by President Ray M. Gidney of the Federal Reserve Bank of Cleveland. The advices from the Reserve Bank state that the Hicksville Bank opened for business on Jan. 9, 1946, assuming the deposit liabilities and purchasing the assets of the Hicksville National Bank. Operating as a state charter bank, it is capitalized with $100,000 common stock and $50,000 surplus. Deposits total $3,457,000. Three of the officers of the predecessor bank continue in similar capacities with the successor bank. They are D. J. Miller, President; J. S. Hull, Vice-President, and E. L. Meeker, Assistant Cashier. Ralph J. Baldwin is Cashier of the Hicksville Bank. Six of the nine directors of the new bank were directors of the old national bank. The six are D. J. Miller; his son, L. D. Miller, President of Crook Son & Co., manufacturers of wooden handles for implements; J. S. Hull; J. R. Blosser; Wallace May, and Jacob Weber. The remaining directors are W. LaVon Boone, Walter W. Ferris, attorney who had been legal counsel for the predecessor bank, and Mrs. Carma J. Rowe, principal owner of the W. L. Johnson Construction Co.

Wendell C. Laycock, President of the Fort Wayne National Bank of Fort Wayne, Ind., announces the following promotions in the bank's official staff which became effective Feb. 14: Herbert E. Widenhofer, Vice-President; Russell G. Ayers, Assistant Vice-President, and Harold D. Cothrell, Assistant Vice-President.

The Second Trust Company of Richmond, Ind., was consolidated on March 9 with the Second National Bank of Richmond under the charter and title of the latter; the bank reports common capital stock of $400,000, divided into 40,000 shares of the par value of $10, and a surplus of $600,000. The bank also reports demand deposits of $17,769,850; savings and time deposits of $7,180,936, and U. S. war loan account, $4,274,797. D. N. Elmer is President.

Lewis S. Robinson has been elected Assistant Vice-President and Assistant Trust Officer of the National Bank of Detroit it is announced. The Detroit "Free Press" indicating this in its Mar. 20 issue said:

"He will serve on the administrative staff of the trust department. A graduate of Princeton University and the University of Michigan Law School, Mr. Robinson was recently discharged from the Army Air Forces. Prior to entering the service he practiced law with Beaumont, Smith & Harris.

William H. Duff, has recently been elected cashier and director of the Plaza Bank of St. Louis, Mo., according to the St. Louis "Globe Democrat" of March 15. Mr. Duff, who was an examiner for the Federal Deposit Insurance Corporation, succeeds R. M. Fox, who recently resigned.

The regular quarterly dividend of 50 cents was declared on March 21 payable March 30 of record March 23, by St. Louis Union Trust Company of St. Louis, it was stated in the St. Louis Globe Democrat of March 22, which added that the board also announced that Fred A. Sheppard, Assistant Vice President, has been given the additional title of counsel, and that M. G. Helston, formerly Assistant Trust Officer, has been promoted to Assistant Counsel.

The appointment of Asa W. Fuller as Assistant Vice-President in charge of the Fifth Street office of Liberty National Bank & Trust Company of Louisville, K., was announced on March 20 by Merle E. Robertson, President of the institution.

Donald McWain, Financial Editor of the Louisville "Courier Journal" in making this known also said:

"Mr. Fuller will take over his new duties Monday (March 25), succeeding Ernest S. Clarke, Jr., who resigned to become President of Union Bank and Trust Company, Lexington, Ky."

The weekly bulletin March 18 of the Comptroller of Currency announced that on March 11th South Carolina National Bank of Charleston, S. C., increased its capital from $1,320,000 to $1,500,000 by the sale of new stock, and from $1,500,000 to $2,000,000 by a stock dividend.

According to the weekly bulletin of the Comptroller of the Currency the Commercial National Bank of Spartanburg, S. C., increased its capital March 11 from $200,000 to $220,000 by a stock dividend, and from $220,000 to $300,000 by the sale of new stock.

It is learned from the Los Angeles "Times" of March 20 that the directors of the Security-First National Bank of Los Angeles authorized on March 19 an increase of $10,000,000 in the capital account through the transfer of that amount from reserves for contingencies and other reserve accounts of the bank to undivided profits. The advices added:

"The action raises the undivided profits account to $22,000,000, which, with surplus of $26,000,000 and capital of $24,000,000 boosts the capital account to $72,000,000 from $62,000,000 as of Dec. 31st, last.

"This transfer of funds to the capital account raises the book value of the 1,200,000 shares of capital stock to $60 a share, George M. Wallace, President, stated."

Semi-Annual Report of Export-Import Bank

(Continued from page 1691)

LOAN DISBURSEMENTS BY EXPORT-IMPORT BANK, BY COUNTRIES, DURING 6 MONTHS ENDED DEC. 31, 1945

(In Thousands of Dollars)

Country	Amount	Country	Amount
Latin America:		Europe:	
Brazil	$ 3,609	Denmark	$ 7,600
Chile	2,711	Netherlands	21,800
Colombia	6,089	Total Europe	29,400
Costa Rica	50		
Cuba	5,125	Asia:	
Ecuador	909	China	4,210
Mexico	3,933	Total Asia	4,210
Paraguay	370	Various countries	499
Salvador	576		
Uruguay	1,064	Grand total	$58,645
Various countries	100		
Total Latin America	$24,536		

Repayments of loans outstanding amounted to $20.6 million during the period, says the Bank, which adds:

"Of the total $252,000,000 loans outstanding Dec. 31, only $303,000, or slightly more than one-tenth of 1%, was past due. At least $90,000 of these past due accounts is regarded as collectible.

"Of the total loans outstanding, approximately $103 million or 41% was advanced by private banks from their own funds under agreements with the Export-Import Bank. In addition to this, exporters and private banks have used their own funds without recourse on the Export-Import Bank in export transactions which are assisted by the Export-Import Bank. Not infrequently the Export-Import Bank's credit is limited to a percentage of the total value of the contract shipments from the U. S. and requires the American exporter, foreign importer or their banks to finance a portion of the transaction themselves. The extent of private capital participation, both with and without recourse on the Export-Import Bank, has been considerable. "Net profit for the six months' period was $3.4 million which was added to the Bank's undivided profits, now amounting to $25.2 million, accumulated since 1934 and which are held as a reserve against future contingencies. Profits from the Bank's operations are secondary to the major objective of fostering the foreign trade of the United States.

A statement of condition of the Bank as of Dec. 31, 1945, follows:

STATEMENT OF CONDITIONS OF EXPORT-IMPORT BANK AS OF DECEMBER 31, 1945

ASSETS—		
Cash		$ 1,276,197.03
Cash deposit with Reconstruction Finance Corporation available on demand		55,156,260.27
Loans:		
Direct from Export-Import Bank funds	$142,384,034.15	
From deposits by participants in loans without recourse on Export-Import Bank (contra)	6,981,223.77	
From advances by private banks under agency agreements with Export-Import Bank (contra)	102,889,739.66	
Total loans		$252,254,997.58
Accrued interest		1,890,641.55
Other assets		155,039.89
Total assets		$310,733,136.32
LIABILITIES—		
Accounts payable		$23,768.19
Collateral held for account of borrowers		580,826.18
Loan advances by private banks under agency agreements with Export-Import Bank (contra)		102,889,739.66
Deposits by participants in loans without recourse on Export-Import Bank		6,981,223.77
Unallocated receipts from participants		18,776.23
Capital stock:		
Authorized	$1,000,000,000.00	
Less: To be issued to United States Treasury	825,000,000.00	
Issued and outstanding		175,000,000.00
Undivided profits held as reserve against future contingencies		25,238,802.29
Total liabilities		$310,733,136.32

NOTE—The undisbursed commitments (i. e., unutilized lines of credit established under loan agreements) of the Export-Import Bank at the end of 1945 were $1,307,545,935.83.

Senator Macy Inducted Into Seamen's Bank Club

Senator W. Kingsland Macy who has completed 20 years of service as a trustee of the Seamen's Bank for Savings was inducted with appropriate ceremony into the bank's Twenty-Year Service Club at its March meeting and dinner, it was announced by the bank on March 18. The name Macy has been identified with the bank for almost 100 years. William H. Macy, great grandfather of the Senator, was elected to the Board of Trustees in 1848 and served as President during the Civil War years. George Plank, teller, was also inducted, and the membership of the club now stands at 48 which includes four members of the Board of Trustees.